Macro Weekly

February 28 2022

Week 9/2022

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week, war & heavy sanctions. What's next? Nobody knows

- **More inflation, less growth – and not higher interest rates. And not a 'risk on' environment (in financial markets, that is)**
  - Not before the virus treat had subsided in most Western rich countries, a **disastrous war on European soil**, and an **unavoidable deep economic war with Russia**. The outcome of the war is highly uncertain – and it is unclear what will happen in Ukraine after a likely Russian military victory
  - The West's **sanction regime** is not written in stone, and it was tightened substantially during the weekend vs. Russian banks (many of them, but not all (yet), will be kicked out of international bank transfer system (SWIFT), making foreign transactions much more complicated. Even the Russian central bank's substantial international reserves have been frozen, and the rouble is exposed, to put it mildly. Assets associated to the leadership in Russia, like several oligarch's assets (including their properties & yachts) and assets belonging to members of the Russian parliament are/will be frozen too
  - The **Norwegian** government decided that the **Oil Fund** will freeze its investments in Russia, and will be aiming for an exit. More western companies will sell their Russian assets (like BP's 20% stake in Rosneft) – but the CBR now forbid such sales. Russian airplanes will not be allowed to or to fly over Europe/Canada. Russia's civilian airplanes from Boeing and Airbus (the whole Russian market!) will not receive necessary services/maintenance from these factories, which may cripple domestic air traffic as well. There will be more restrictions on export of technology products to Russia. The aim is to hurt the Russian regime by hurting the economy, in a broad way (and praying for a regime change in Moscow)
  - Several European countries **changed their policies** on other areas <u>during the weekend</u>, like selling weapons to a country engaged in a war, and to increase defence spending. Norway will even send helmets and body armour to Ukraine. Sure they need that, and a lot of other things… During Monday, the number of refuges will surpass 0.5 mill
  - **Putin has very likely totally underestimated** the military resistance in Ukraine, critics in Russia, even from some oligarchs, celebrities and ordinary people, as well as the unified, and strong Western response regarding sections and support for the Ukraine. Barring the bizarre threat by putting **nuclear forces on high alert**, Russia has not yet responded with measures vs the West, like turning the gas tap, confiscation of foreign property etc. Most likely, Putin will up his ante on the economic front too the coming days – if Ukraine and Russia does not agree to make peace and love at the Belarus border today
  - Thus, estimating the **outcome of this conflict**, and the economic impact <u>is not possible</u>. The escalation of the sanction regime, which no doubt will hurt the Russian economy will also have negative impacts in the Western economies themselves. So far, the West states it wants to buy energy from Russia (and probably many other products the West needs). The key risk is reduced gas, oil and coal exports to Europe from Russia, as well as less exports of wheat from Russia/Ukraine, and reduced supplies of some other raw materials/metals. Even China is reported (in media) to accept sanctions on Russia and is reducing oil imports already.
  - Barring these energy/some grains/and other commodities, **Russia is just a minor economic player** at the global economic arena. Total exports equal just 1.5 -2.5% of global exports, normally less than Spain's export (and slightly above Poland's if the oil price is low). Even so, less energy supplies – where Russia is a dominant player, and possible more trade frictions, are not the world economy needed now
  - **Markets** were understandingly volatile on Thursday and Friday. **Russian markets** are badly hurt, both the currency and the stock market. **Energy prices**, especially gas skyrocketed on the invasion at Thursday, then fell back when the first round of sanctions were milder than expected. Following the tightening of the sanction regime, and the increased tensions between Russia and the West, Monday will not be a quiet day either (check below)
  - Our main idea is that new **supply shocks will lift inflation, but also reduce growth** – and that the growth impact is more important for central banks than a new 'transitory' increase in headline inflation, at least in Europe. An ECB board member left remarks like this at Friday. If **wage inflation** is not pushed up by a continued elevated headline inflation rate, central banks should not tighten monetary policy, at least not faster than assumed before the Russian-Ukrainian war. Higher energy/raw material prices will support Norwegian assets relative to others (and the NOK rose 2% last week)
  - On the other hand, the **'normal' minor geopolitical crises** have usually not left long lasting scars in the global economy or markets. The Vietnam war may have contributed to high inflation in the 70'ies but several other factors were also important. We sincerely hope that we can focus on ordinary economic factors again not before too long. However, a deep conflict with Russia may last for long, following Russia's attack on Ukraine

Markets this morning: The oil price up to above USD 100/b again, equity markets are down some 2%, while the US 10 bond yield is down 7 b to 1.90%. According to media, the Russian rouble is down 30% vs the USD this morning, and we assume the Russian equity market will follow suit today (if it is not kept closed)

Last week, the economy

- **Preliminary February PMIs**
  - The **February PMIs** were far better than expected in EMU, UK and the US – and much weaker in Japan. In total, a brisk uptick following the steep, and unexpected, decline in January. We estimate a 2.1 p lift in the global composite PMI to 53.5, equalling an increase in the global GDP growth by 1.5 pp to above 3.5%. Services recovered everywhere (barring Japan), and the manufacturing sector is still reporting decent growth. The delivery times index is on the way down but still elevated. Price indices may have peaked, but some rose again in February – and supply chains are not working as normal. We think, mostly due to the unprecedented demand for goods in parts of the rich world. The risk vs our 'mechanical' Feb f'cast is on the downside, as other countries in Asia than Japan are still struggling with the Omicron variant
- **USA**
  - **Personal spending** rose more than expected in January, driven by higher demand for goods, while services stagnated – no doubt due to the virus problems. Very likely, service will return to growth in February. Consumption of goods is 10% above the pre-pandemic trend path, services are 5% below. A substantial realignment must be expected the coming months/quarters. Income growth was moderate, and the savings rate fell 1.5 pp, and at 6.4% it is now below the Feb-20 level. The PCE price indices was a bad as expected, and details were not encouraging as more prices on more goods and services are climbing faster, all underlying measures are 'frightening'
  - **Durable orders** rose further in January, thanks to aircraft orders. However, the core is strong too, and investments orders are growing at a brisk pace
  - The **housing market** is tight, and existing home prices are still up 18.8% y/y (the Shiller index), as prices rose faster m/m again. New home sales kept up well but the inventory of new homes is on the way up. New home prices are up too, construction costs are up 17%, selling prices 19%
- **Sweden**
  - **House prices** are climbing faster again, **LFS employment** has been much stronger than assumed, **vacancies** are climbing to new ATH levels. Just the **LFS unemployment rate** remains high – because **the participation rate** is on the way up to – and is record high
- **Norway**
  - The **no. of employees** rose by 0.4% in January, far better than we expected – and now the payroll is 2.3% up from Feb-20. Just hotels/restaurants reported a decline in employment (by mid-February). We expect a substantial lift in this sector by mid-March
  - The **NAV unemployment rate** fell by 0.3 pp 2.1% in February, 0.8 pp below NoBa's Dec forecast, and 0.2 pp lower than consensus. Including measures, unemployment is below the pre-pandemic level – just Oslo and Viken is now marginally above, the others below. The **LFS unemployment** fell by 0.2 pp to 3.3%, expected unchanged (by consensus & us)
  - **Hotels** reported a steep decline in guest nights in January. February and March will be far better
  - **Population growth** accelerated in H2 but remains at moderate level

The Calendar: PMI/ISMs, US labour market, Fed's Beige book, EMU inflation. War & sanctions

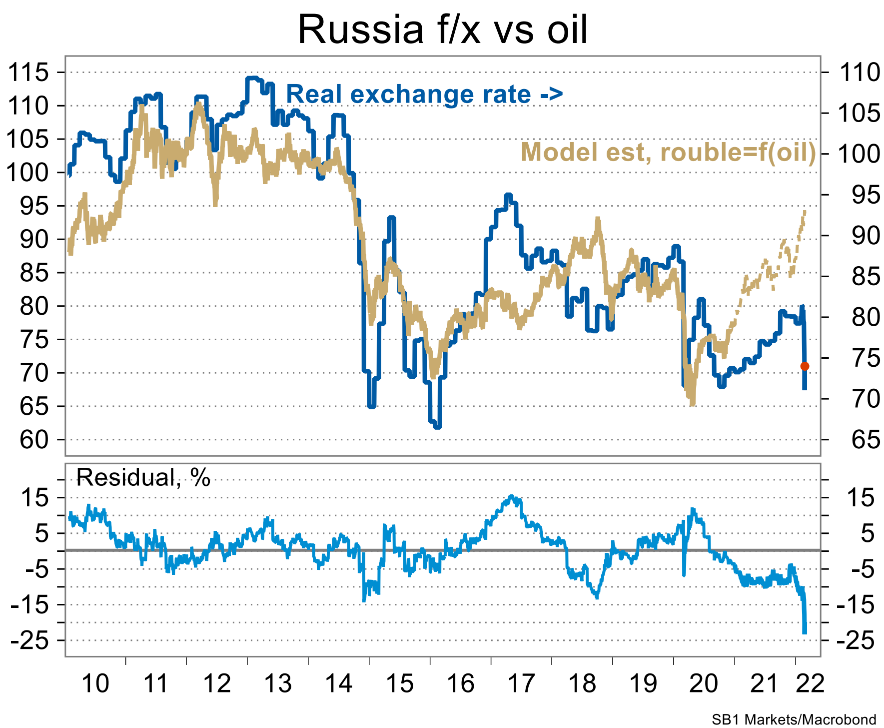
Time	Count.	Indicator	Period	Forecast	Prior
Monday Feb 28					
08:00	**NO**	**Retail Sales MoM**	**Jan**	**1.5%(2)**	**-3.1%**
08:00	NO	Credit Indicator Growth YoY	Jan	(5.1)	5.0%
08:00	SW	Retail Sales MoM	Jan	2.0%	-4.4%
14:30	US	Advance Goods Trade Balance	Jan	-$99b	-$101b
Tuesday Mar 1					
02:30	CN	Manufacturing PMI, NBS	Feb	49.8	50.1
02:30	CN	Non-manufacturing PMI, NBS	Feb	50.7	51.1
02:45	**CN**	**Manufacturing PMI, Caixin**	**Feb**	**49.2**	**49.1**
08:30	SW	Swedbank/Silf PMI	Feb		62.4
10:00	NO	Manufacturing PMI	Feb	56.5(57)	56.5
10:00	EU	Manufacturing PMI	Feb F	58.4	58.4
14:00	**GE**	**CPI YoY**	**Feb P**	**5.0%**	**4.9%**
15:45	US	Manufacturing PMI	Feb F		57.5
16:00	US	Construction Spending MoM	Jan	-0.4%	0.2%
16:00	**US**	**ISM Manufacturing**	**Feb**	**57.9**	**57.6**
17:00	WO	Manufacturing PMI	Feb	(54.1)	51.4
	US	Auto sales	Feb	14.50m	15.04m
Wednesday Mar 2					
08:00	NO	Current Account Balance	4Q		158b
08:00	NO	Households' savings rate	4Q		
08:00	NO	Banks, interest rates	Jan		
09:55	GE	Unemployment Claims Rate SA	Feb	5.1%	5.1%
11:00	EU	CPI Estimate YoY	Feb	5.4%	5.1%
11:00	**EU**	**CPI Core YoY**	**Feb P**	**2.5%**	**2.3%**
14:15	US	ADP Employment Change	Feb	325k	-301k
20:00	**US**	**Fed Reserve Beige Book**			
Thursday Mar 3					
02:45	CN	Caixin China PMI Services	Feb	50.8	51.4
08:30	SW	Swedbank/Silf PMI Services	Feb		68.6
11:00	EU	PPI YoY	Jan	27.0%	26.2%
11:00	EU	Unemployment Rate	Jan	7.0%	7.0%
10:00	EC	Markit Eurozone Services PMI	Feb F	55.8	55.8
10:00	EC	Markit Eurozone Composite PMI	Feb F	55.8	55.8
14:30	US	Unit Labor Costs	4Q F	0.3%	0.3%
15:45	US	Markit US Composite PMI	Feb F		56
16:00	**US**	**ISM Services Index**	**Feb**	**61**	**59.9**
17:00	WO	Services PMI	Feb	(54.1)	51.4
17:00	WO	Composite PMI	Feb	(53.5)	51.4
Friday Mar 4					
08:00	NO	Financial Accounts, sectors	4Q		
11:00	EU	Retail Sales MoM	Jan	1.3%	-3.0%
14:30	US	Change in Nonfarm Payrolls	Feb	400k	467k
14:30	**US**	**Unemployment Rate**	**Feb**	**3.9%**	**4.0%**
14:30	**US**	**Labor Force Participation Rate**	**Feb**	**62.2%**	**62.2%**
14:30	**US**	**Average Hourly Earnings YoY**	**Feb**	**5.8%**	**5.7%**

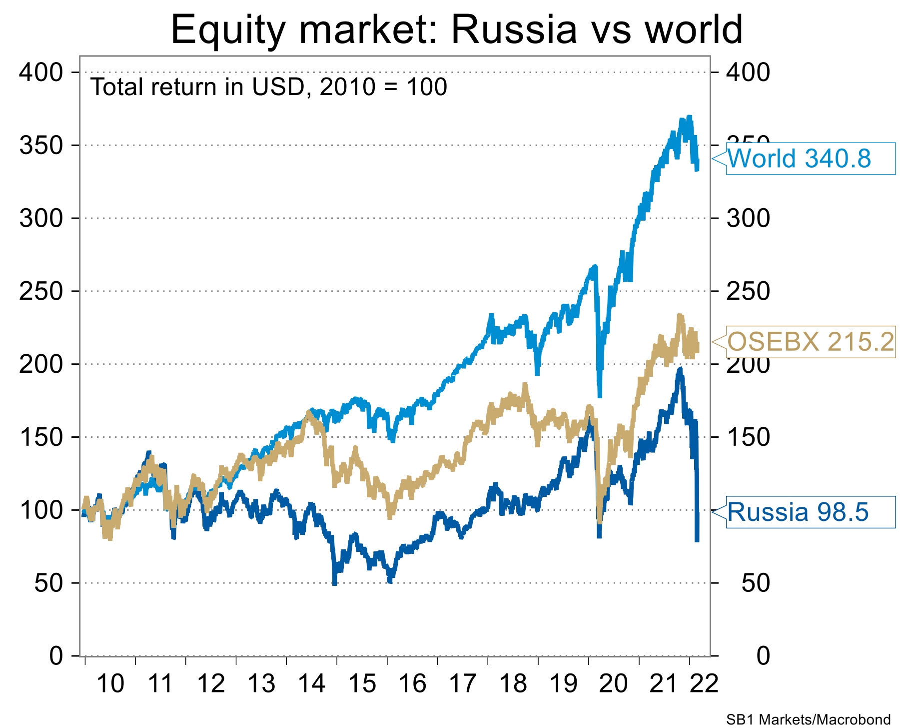
- **PMI/ISMs**
  - » **The preliminary February PMIs** from the rich part of the word were much stronger than expected, as services recovered in both EMU, UK and the US. Now, China and other EMs will report, as well as the ISM indices from the US. The risk vs our 'mechanical' Feb f'cast is on the downside, as other countries in Asia than Japan are still struggling with the Omicron variant
- **USA**
  - » **The labour market** is extremely tight, and wage inflation is accelerating. We do not expect any changes in that narrative following the February report at Friday.
  - » **Fed's beige book** will report stronger growth in activity, at least in service industries in the previous weeks
- **EMU**
  - » **Unemployment** is declining, and **inflation** is accelerating. Annual inflation rates are expected further up in February. Omicron may have prevented the unemployment rate to decline further in January, but the trend is down. However, there are now some other things to worry about
- **Norway**
  - » **Retail sales** fell sharply in December, we expect a recovery in January – even if the trend is very likely down. Services were kept in check by the virus in January too
  - » **Households' savings rate, their financial positions & bank's lending & deposit rate** will shed light on household's financial position. Barring a high debt level, other elements are not alarming
  - » BTW, if you want to see some spectacular **current account** numbers, check the Norwegian Q4 figures!
- **The news from the East front**
  - » Turned out to the worst possible last week. We hope and pray for something better this week but war dynamics are normally not that short-lived

Sources: Bloomberg. SB1M est. in brackets. Key data are highlighted, **the most important in bold**

At Friday, the Russian rouble is 20% weaker than normal, given the oil price

And it has become much cheaper today, given the tightening of the sanction regime over the weekend





- In addition, the stock market still has some downside left…

Russia in the global economy: 1.5 – 2.5% of global exports

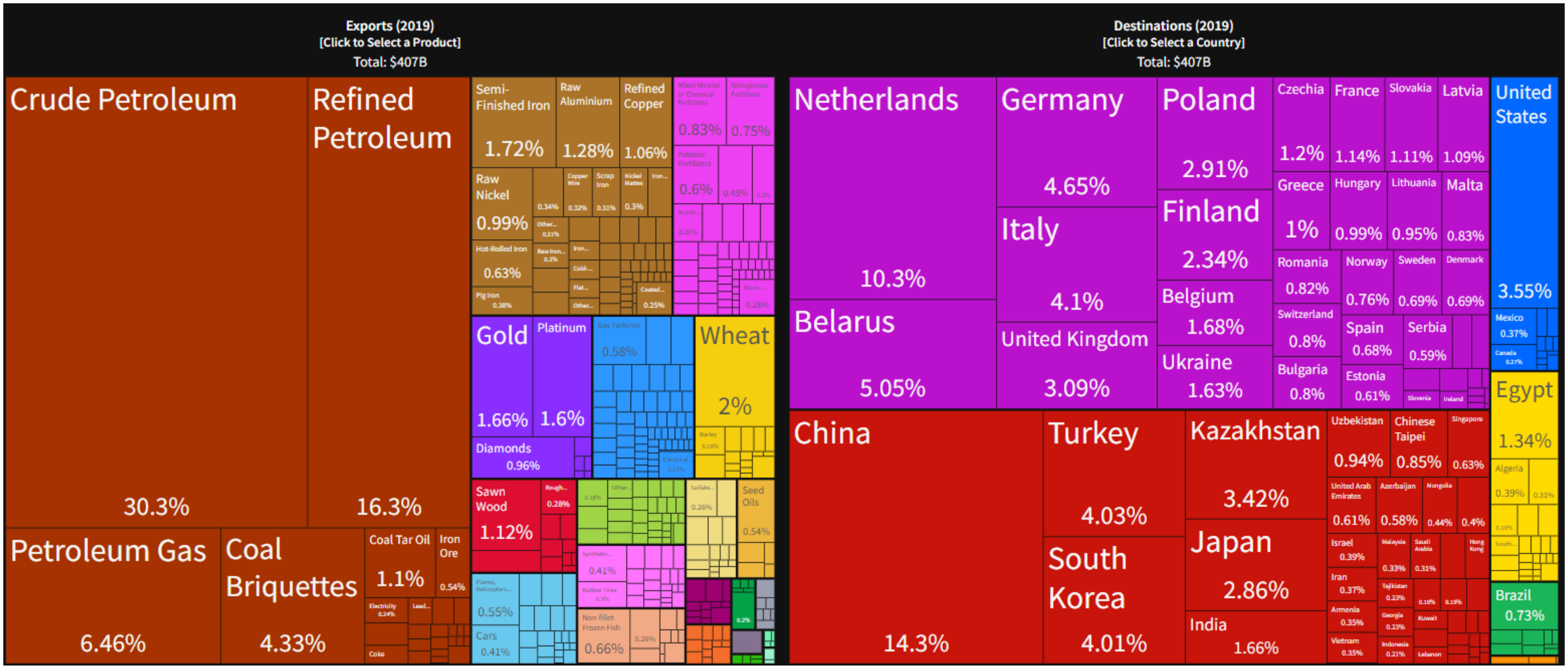
… depending on the oil price

Rank	Country	Exports (millions of $)	% of GDP	Year
	World	22,506,809.01	26.1%	2020
1	China	2,343,376.93	18.5%	2021
2	United States	2,134,445.00	10.2%	2020
3	Germany	1,671,822.70	43.4%	2020
4	Japan	793,322.84	15.5%	2020
5	United Kingdom	771,481.42	27.9%	2020
6	France	759,609.68	27.9%	2020
7	Netherlands	711,623.17	77.9%	2020
8	Hong Kong	612,609.65	176.7%	2020
9	South Korea	606,710.10	36.4%	2020
10	Singapore	599,198.18	176.2%	2020
11	Ireland	559,371.07	131.1%	2020
12	Italy	556,454.77	29.4%	2020
13	India	484,690.63	18.7%	2020
14	Canada	477,087.42	29.0%	2020
15	Switzerland	468,740.75	62.3%	2020
16	Mexico	434,178.94	40.2%	2020
17	Belgium	417,521.41	80.0%	2020
18	Spain	392,806.18	30.6%	2020
19	Russia	380,410.98	25.5%	2020
20	Poland	336,317.00	56.2%	2020
21	Iran	333,000.40	22.9%	2021
22	Australia	300,763.61	24.0%	2020
23	Vietnam	290,229.00	105.5%	2020
24	Thailand	258,644.97	51.5%	2020
25	Sweden	243,687.48	44.6%	2020
26	Brazil	239,282.77	16.9%	2020

- Russia is not a very important export market for any country but Belarus, Ukraine, and some of the ‘stans’
- China is the largest source of imports to Russia, but this imports equals less than 2% of Chinas total exports. The same for no. 2 at the list of important sources of imports, Germany
- Just 0.37% Norway’s exports are directed towards Russia
- Finland is more exposed, 5% of its exports is sent to Russia

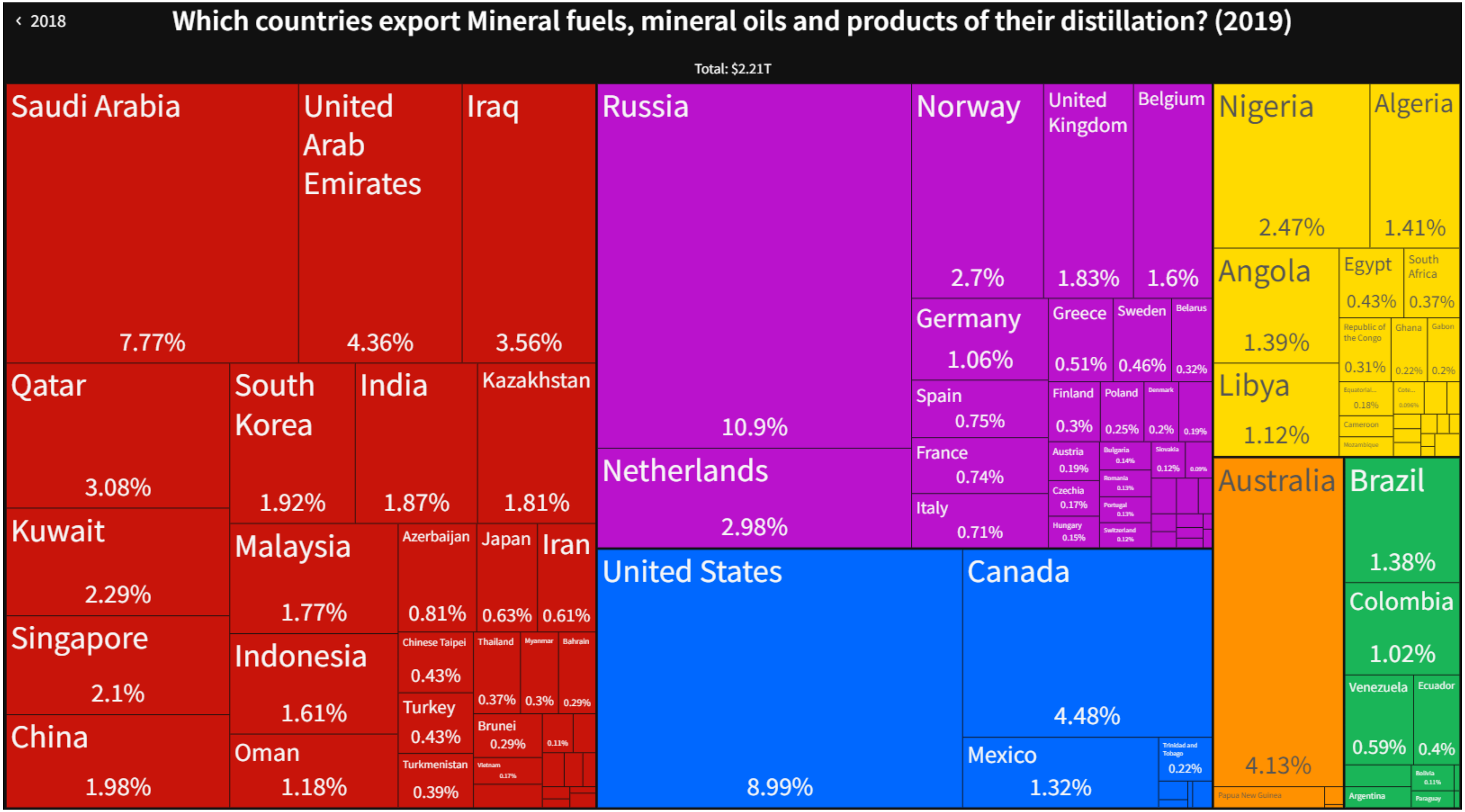
What & where is Russia exporting?

Energy 60%. Most exports are shipped (& piped) to Europe, and to China.
Just a small fraction to the US

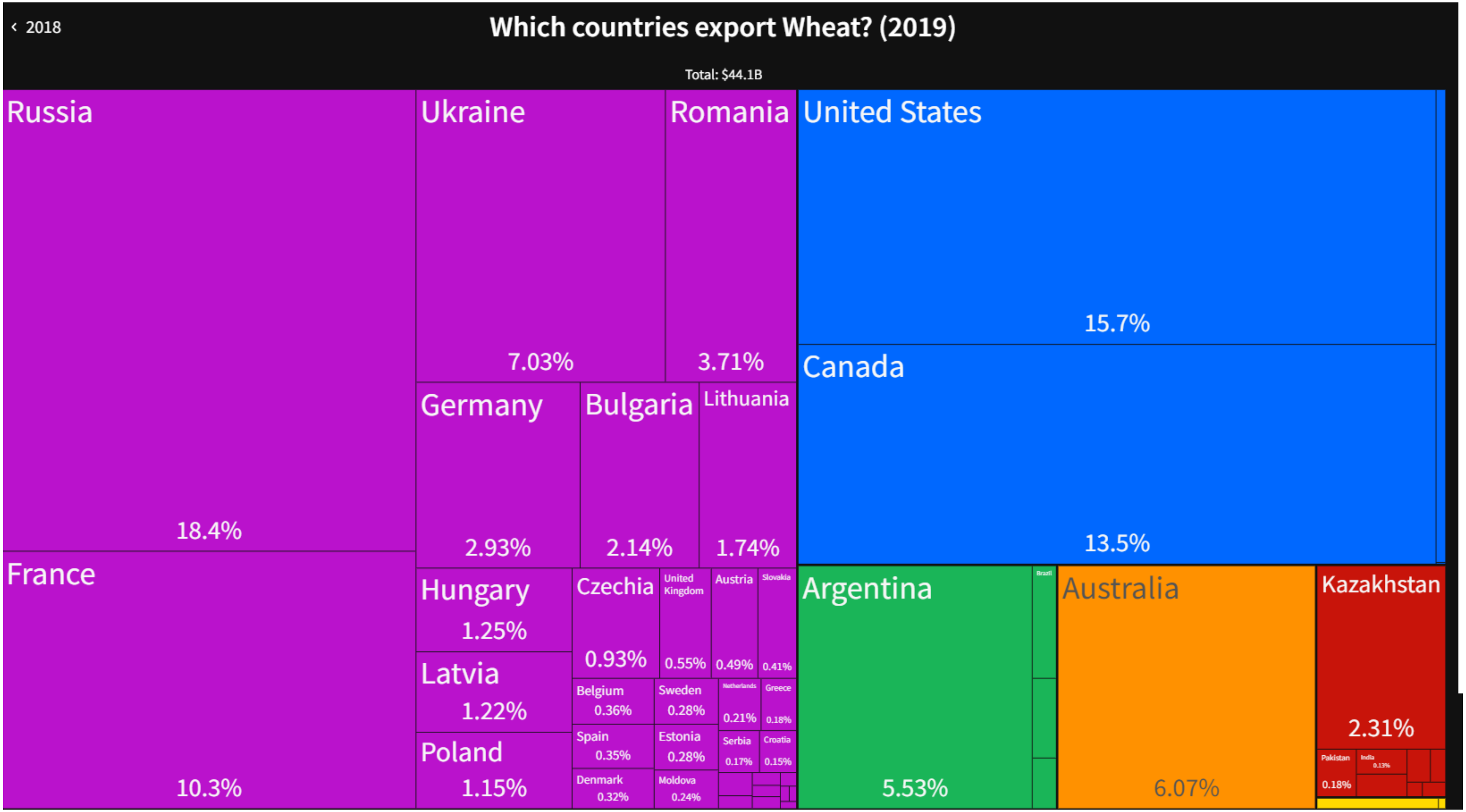


Source: Observatory of Economic Complexity (OEC)

Russia is the world’ largest exporter of oil & gas (and products)



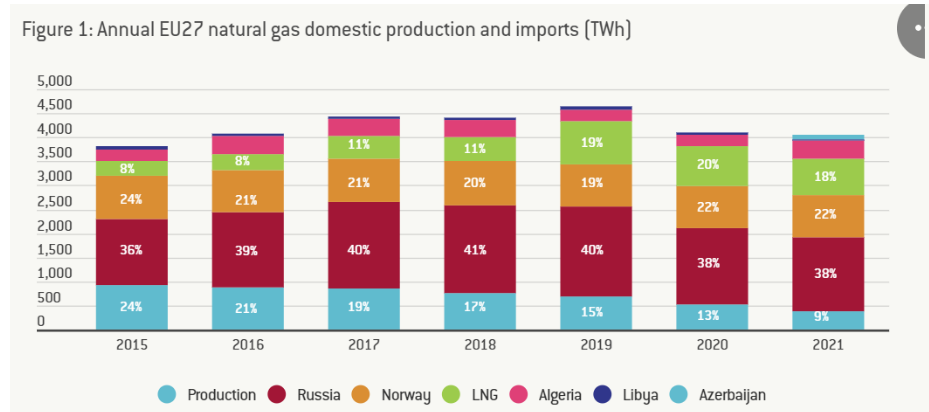
… and of wheat, with Ukraine at no. 3

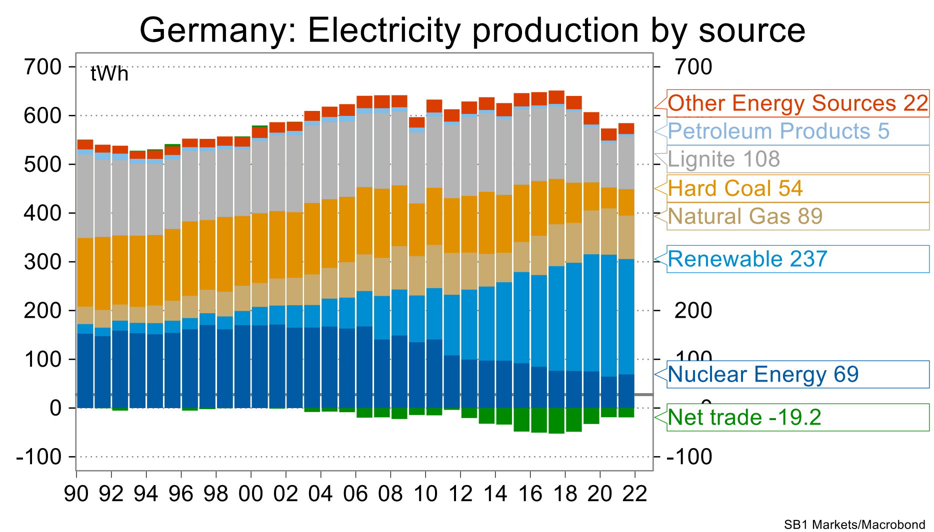


Russia supplies almost 1/5 of total EU consumption of energy

Dependence on Russian imports would have been smaller if nuclear plants have not been closed down

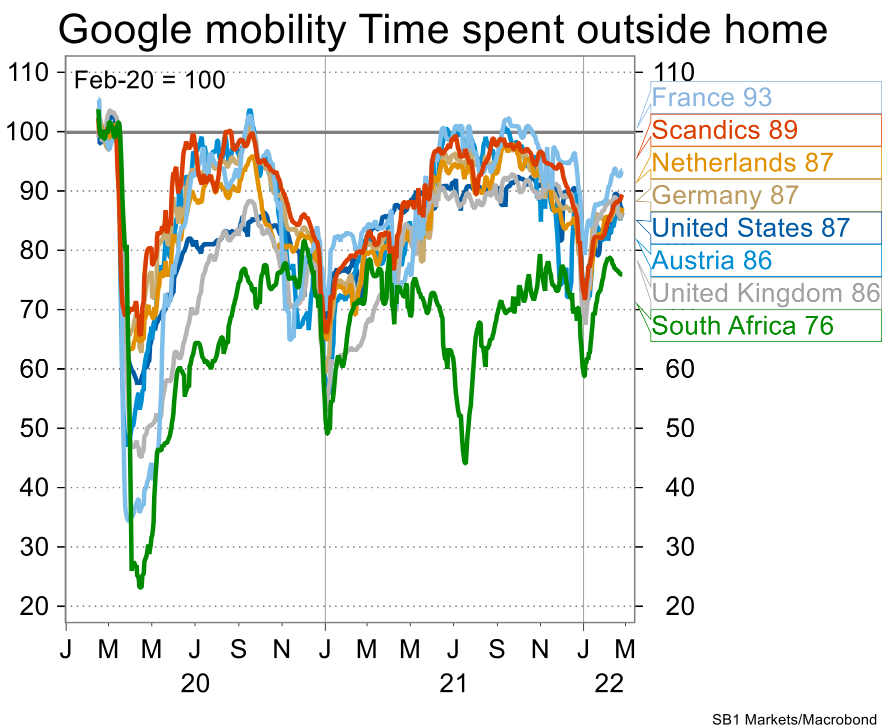
EU consumption of energy From:	Share of total energy production	Share of total imported from Russia	Share of total energy imported from Russia
Gas	22	38	8
Oil	33	25	8
Coal	12	20	2
Sum above	65		18
Nuclear	13		
Renewable	16		
Other sources	6		

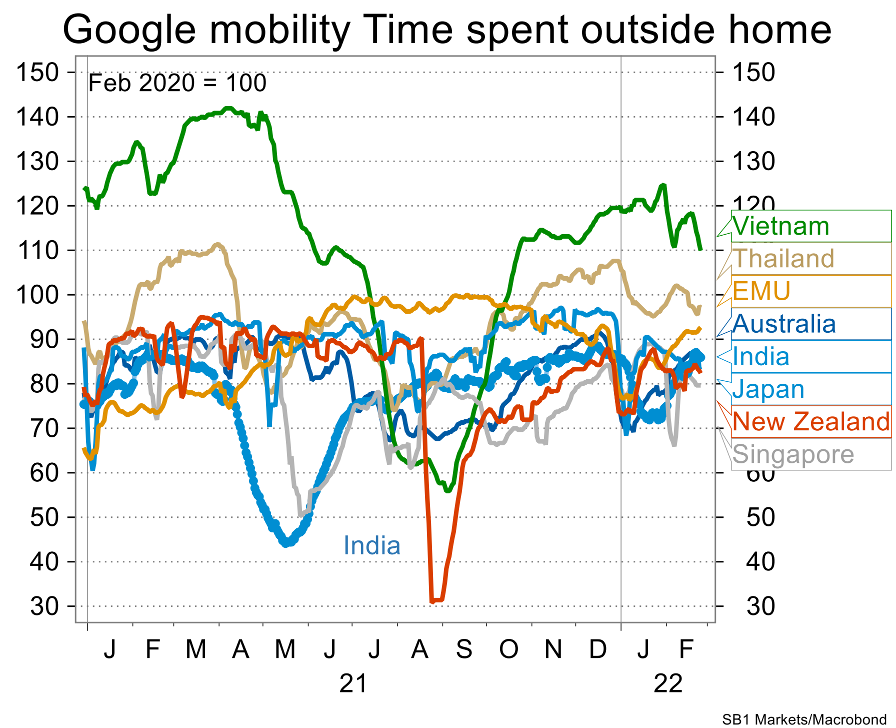




Sources: EU energy stats, Macrobond

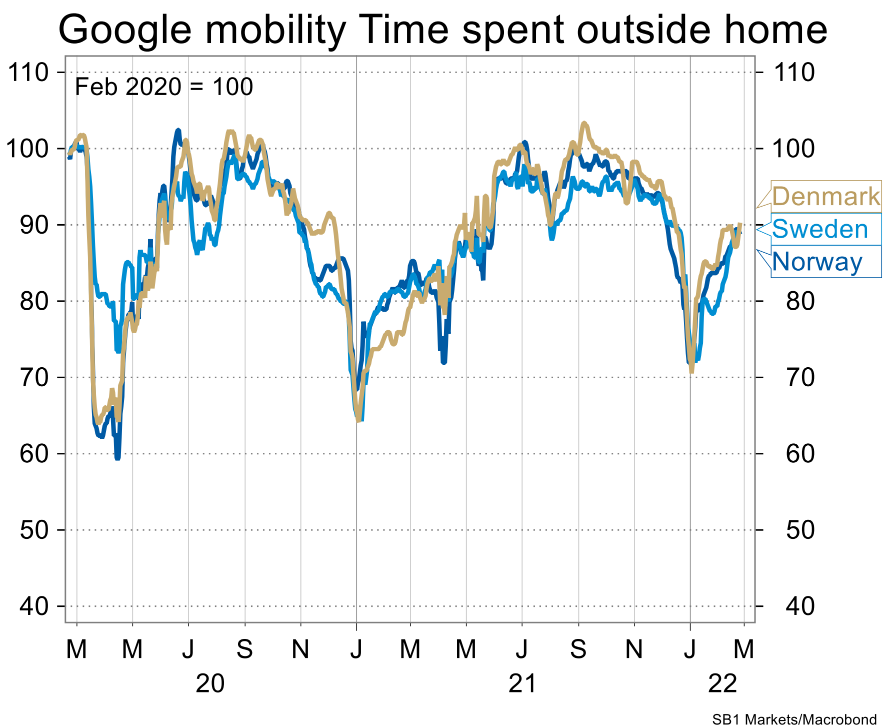
Mobility on the way up in the West, still some challenges in the East?

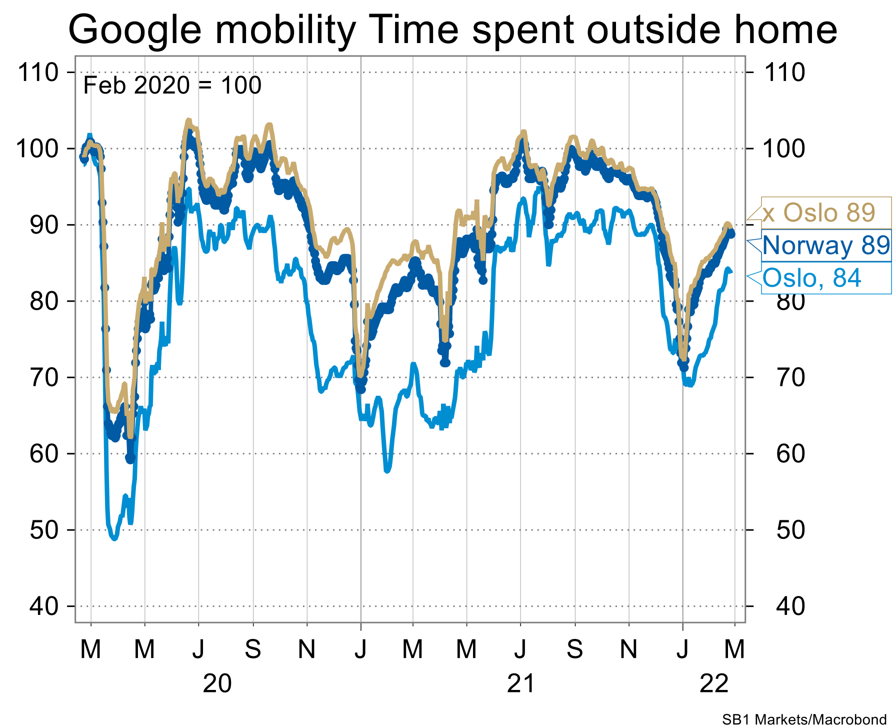




Mobility is on the way up in the Scandics, and in all parts of Norway

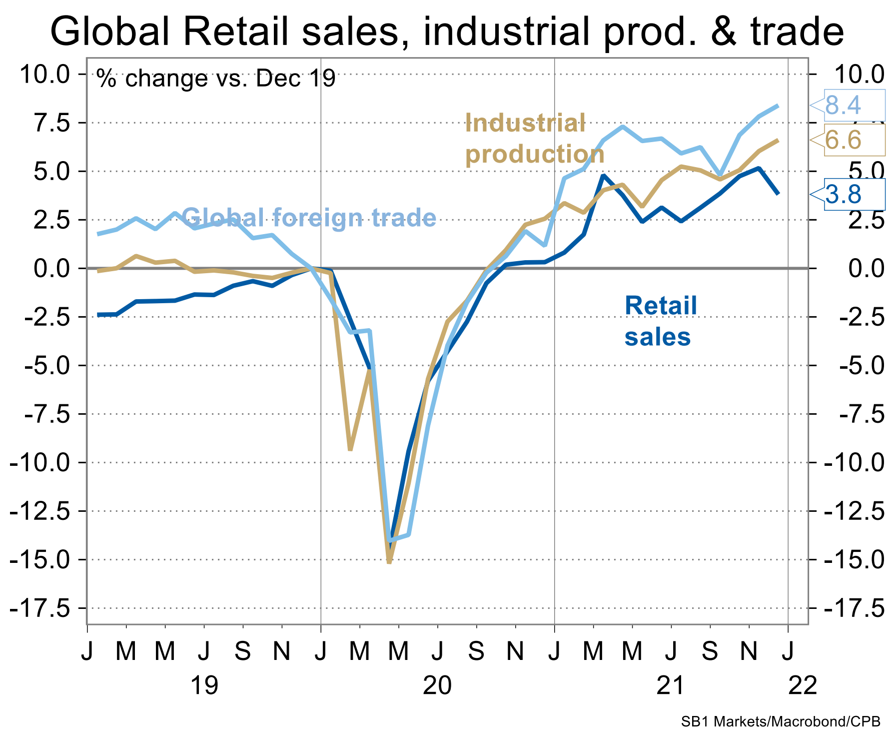
For good reasons

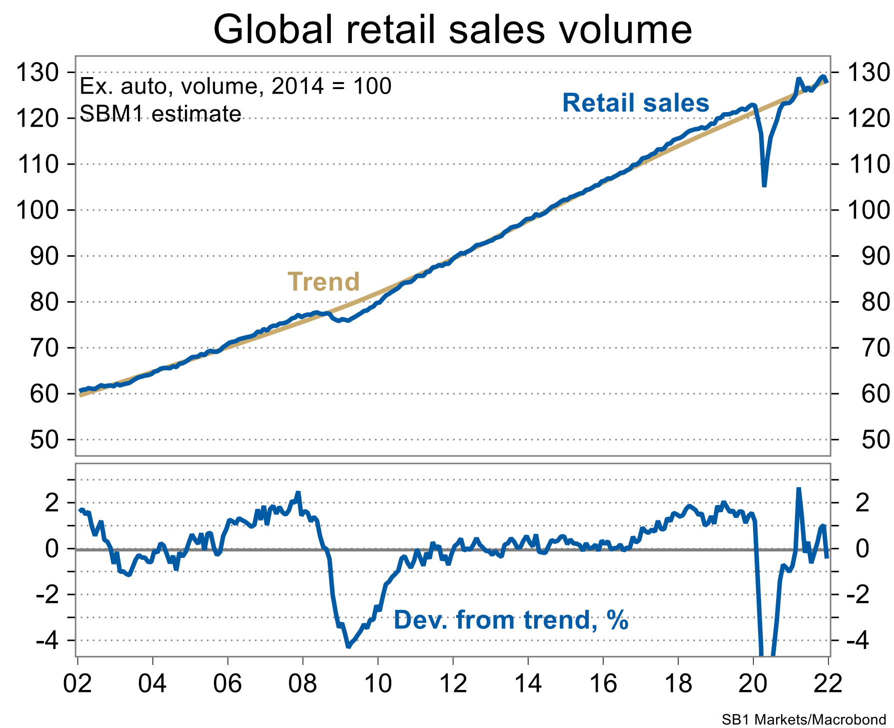




Global retail sales fell (at least) 1.2% in Dec, rich countries down 3%

Covid & high energy prices to blame? Manufacturing production kept up well

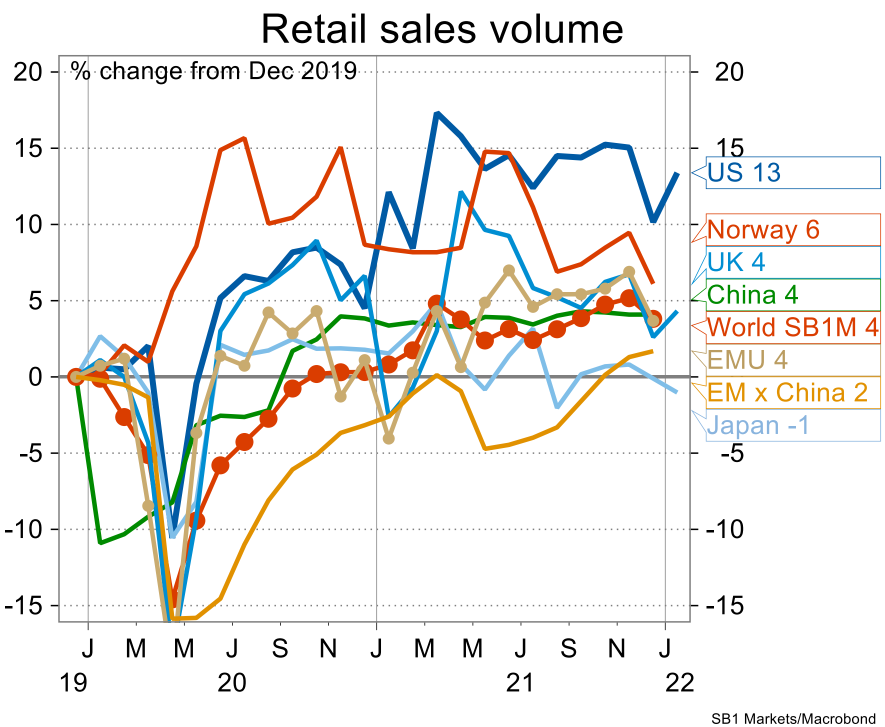


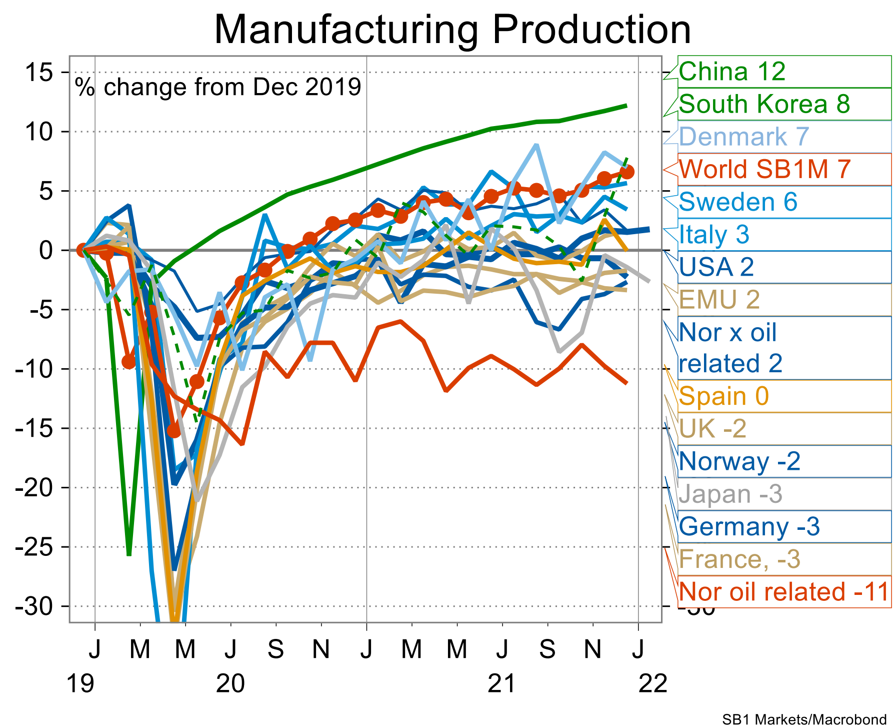


- **Global retail sales** very likely fell sharply in December, as sales fell some 3% in the rich part of the world – and unusually broadly. Omicron may explain some of the weakness, so may energy prices. However, the level has been too high as well, and one day sales will come back to earth. The global estimate is still uncertain as too few emerging markets have reported yet
- **Global manufacturing production** has recovered since the summer, and growth was through Q4
- **Global foreign trade** rose sharply in Oct/Nov, following the setback in September (and several weak months since last May). Trade is up 7.6% vs. Dec-19

Retail sales very likely recovered in January, from a weak December

Still, the trend is very likely down in the rich part of the world? Manufacturing prod. still OK

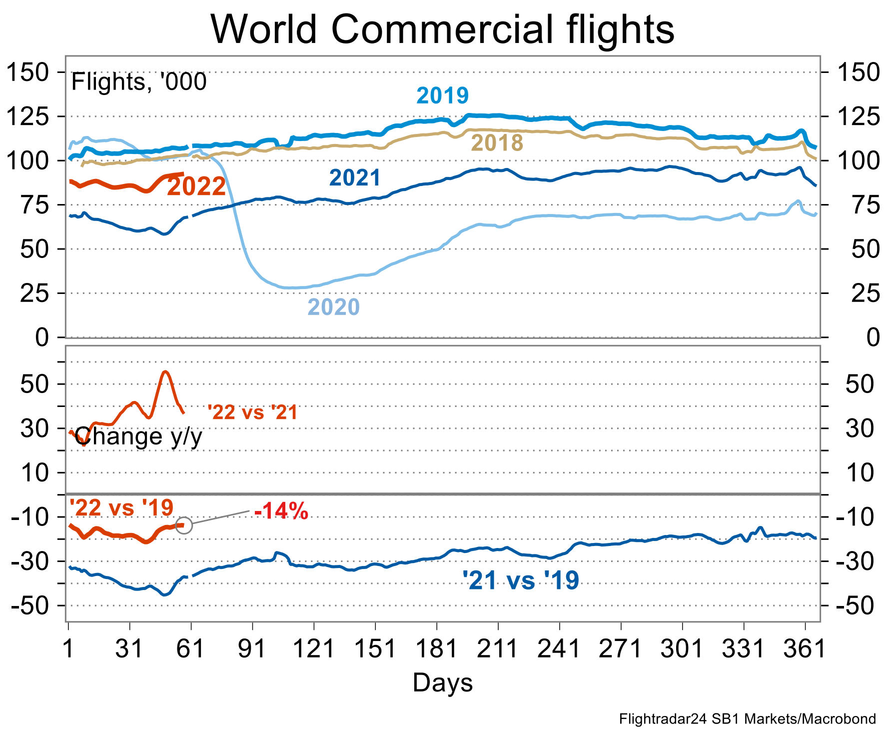


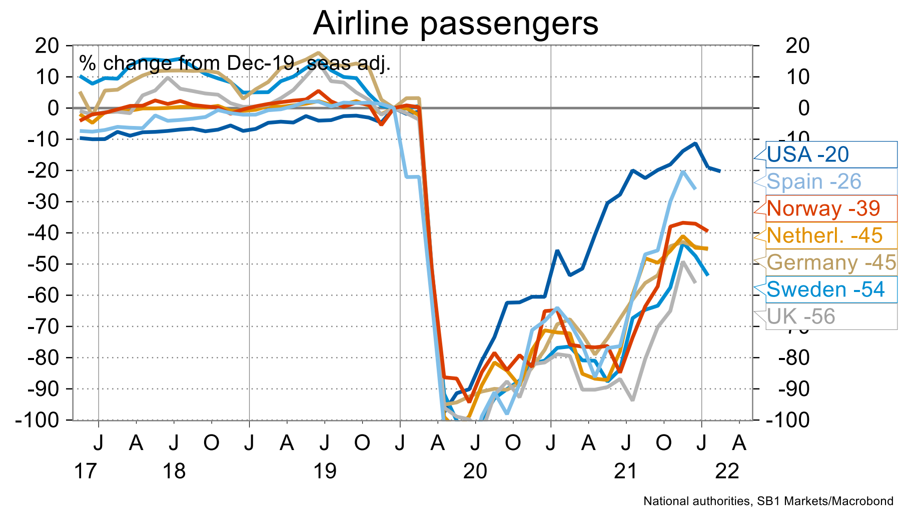


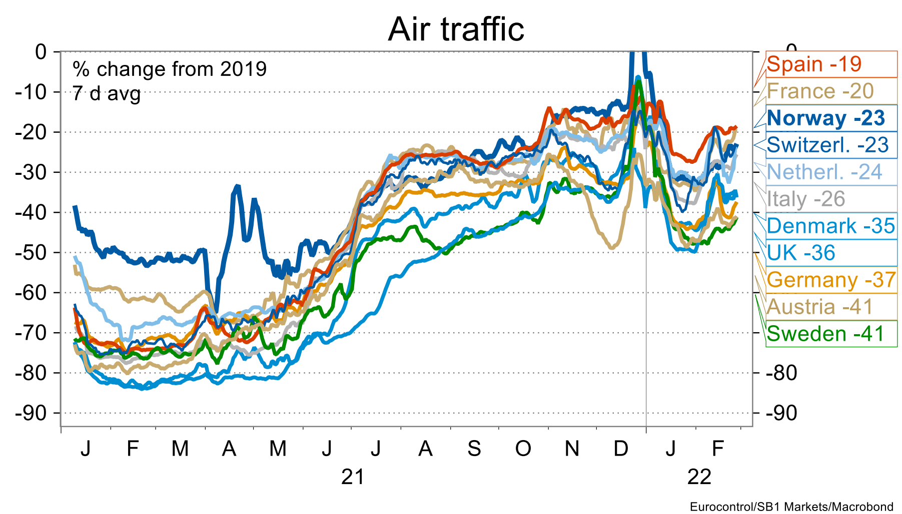
- **Retail sales** in Emerging Markets x China are recovering but is far below pre-pandemic trends. The Dec estimate is rather uncertain
- **Manufacturing production** has been hampered by a deep decline in auto production, but this sector is now recovering. The manufacturing PMIs are still strong, and delivery times very likely easing

Global airline traffic further up last week, now down ‘just’ 14% vs. 2019

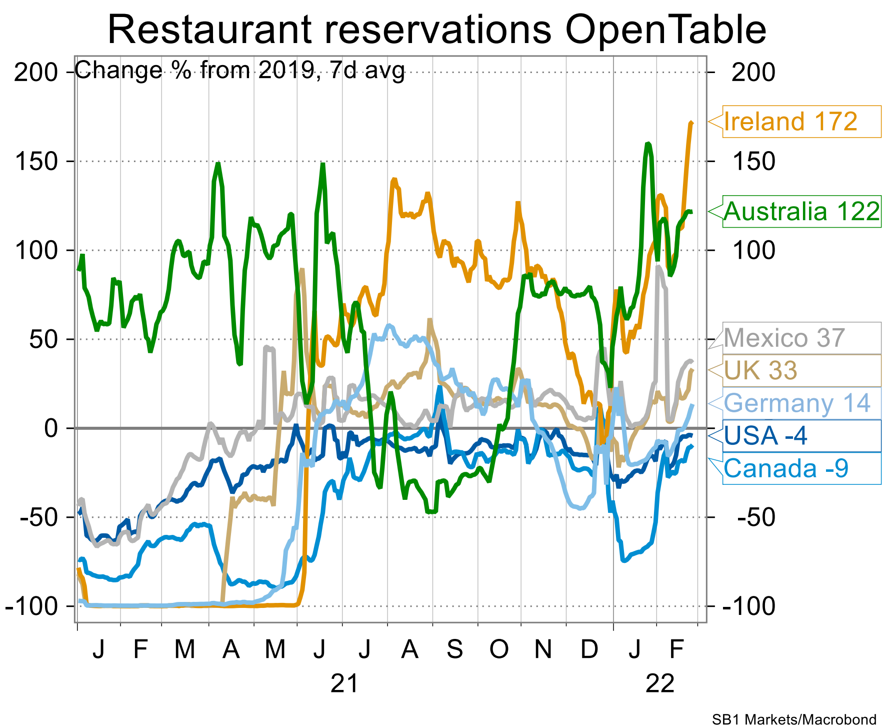
The fight against Omicron is won?

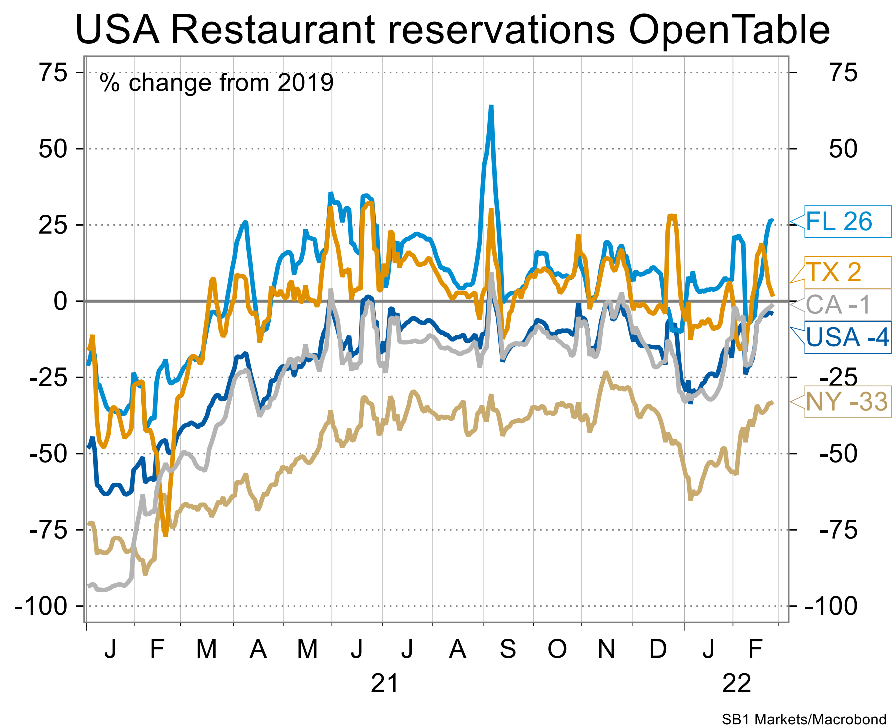






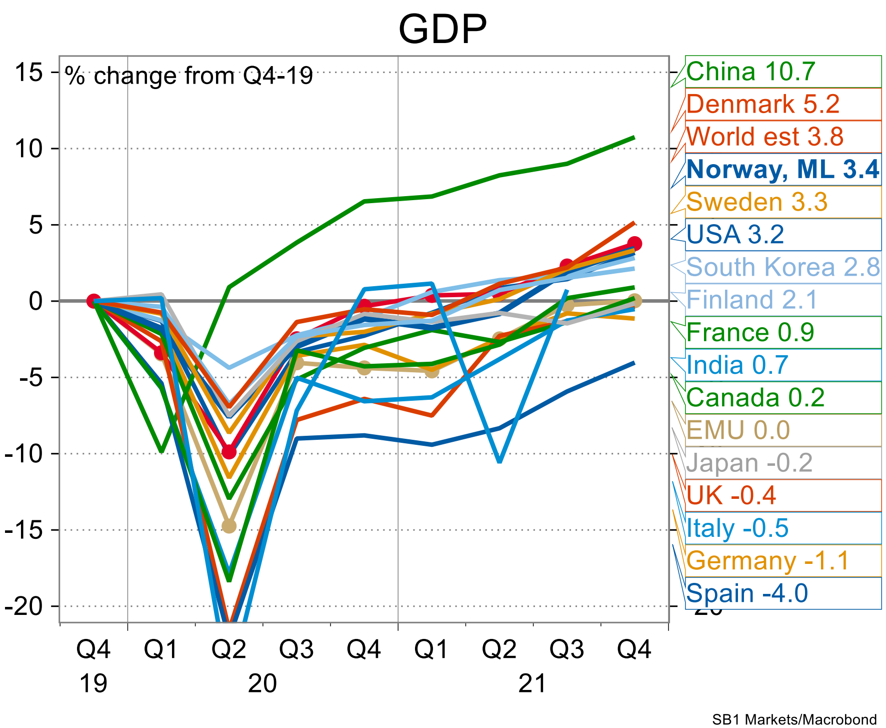
More restaurant guests most places

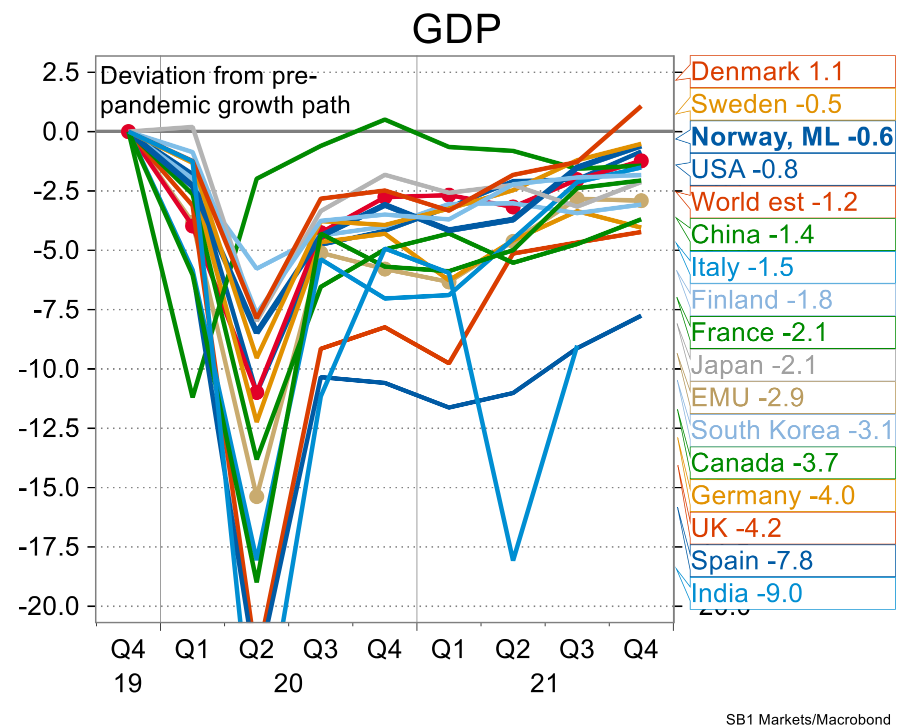




Strong growth in Q4 too, GDP is up 3.8% vs the pre-pandemic level

.. But still 1.2% below the p-p trend growth path



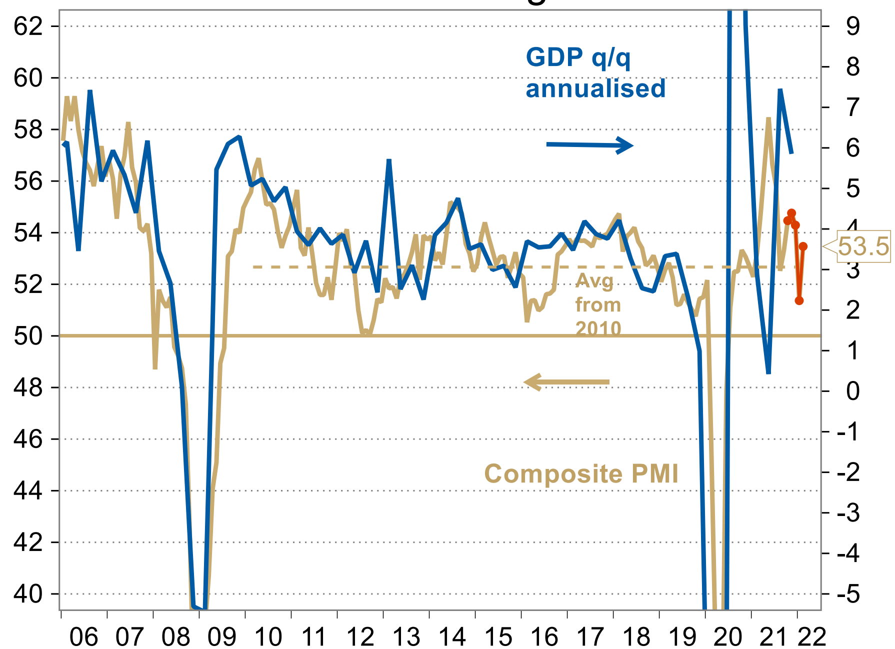


- Most countries have reported decent growth in Q4
- Some estimates are included at the charts above (but both Denmark and Finland are represented with their Q3 GDP data)

The preliminary PMIs sharply ~~down~~ up in ~~January~~ February

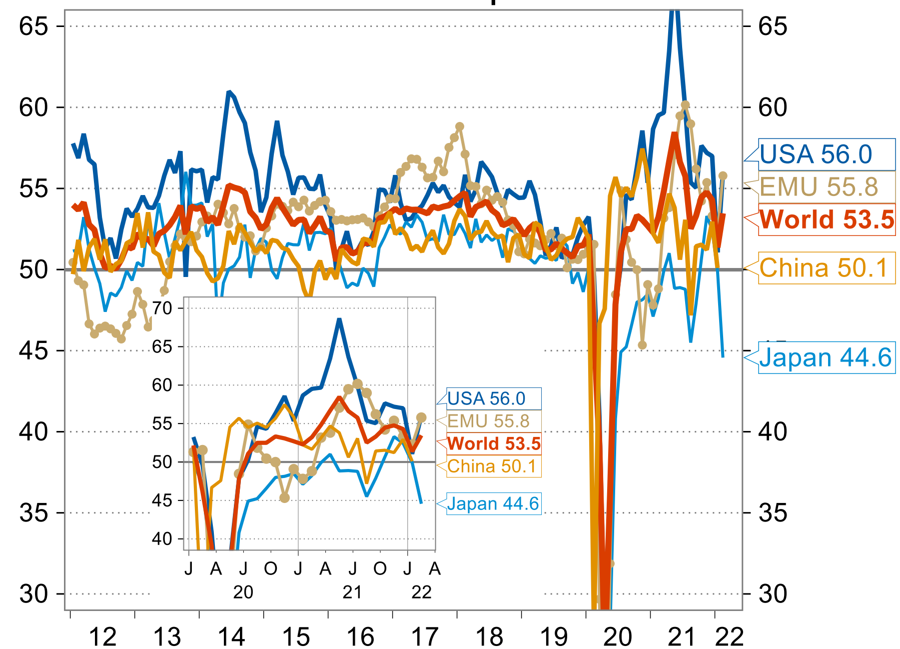
We estimate +2.1p m/m to 53.5, equalling 1.5 pp higher global GDP growth, up to 3.5%

Global PMI vs growth



SB1 Markets/Macrobond

PMI Composite



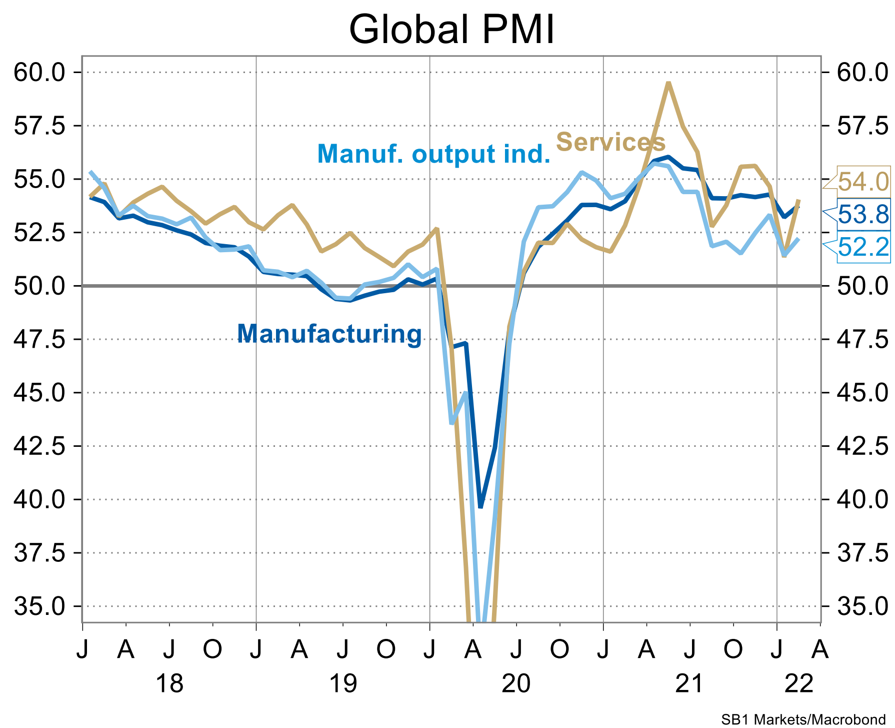
Source: IHS Markit, SB1 Markets, Macrobond

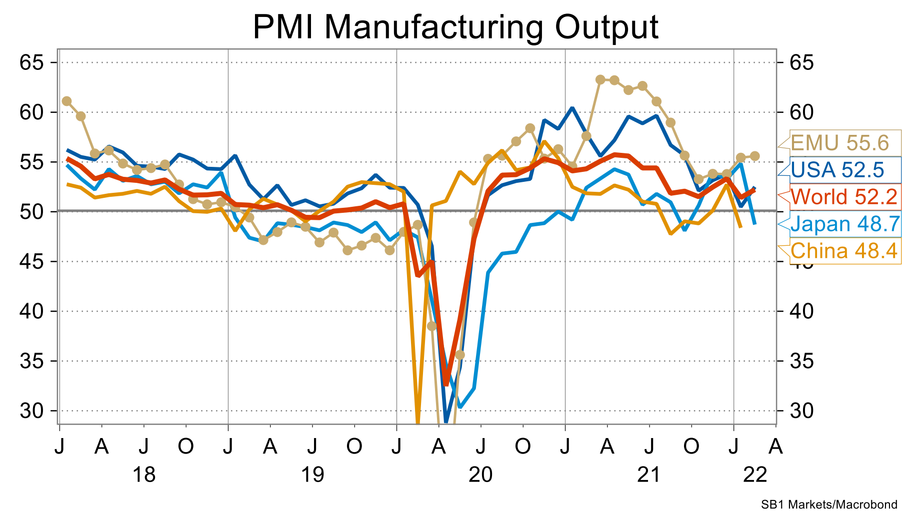
- **The flash composite PMI** was far better than expected in EMU, UK, US, and Australia but well in Japan. Our simple model – without any data from China or other EMs – signal a 2 p+ hike, reversing most of the surprising decline in January. The level is above the average over the past 12 years. Services, which fell the most last month, recovered the most in January
  - » Thus, our hypothesis was confirmed, the large January drop was an outlier, and due to Omicron trouble both sides of the Antantic
- **The delivery times index** fell for the 4$^{\text{nd}}$ month in row – and **price inflation slowed, at least input prices**. Both indices are still at very high levels though
- The **order index** was close to unchanged, at an average level (manufacturing). Over the recent months, a steady decline

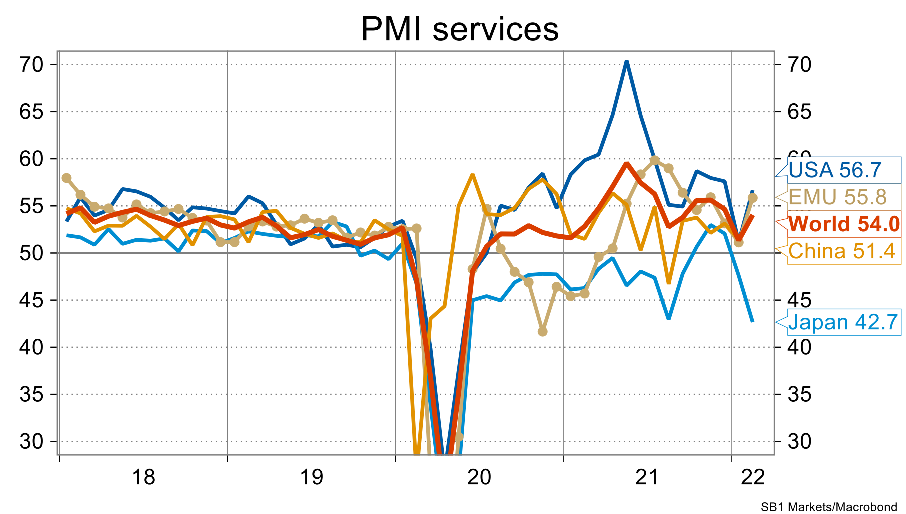
Our estimates are based on the preliminary PMIs from US, China, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p

Except for Japan, a real February reversal of the January setback

Services report much faster growth in Februar



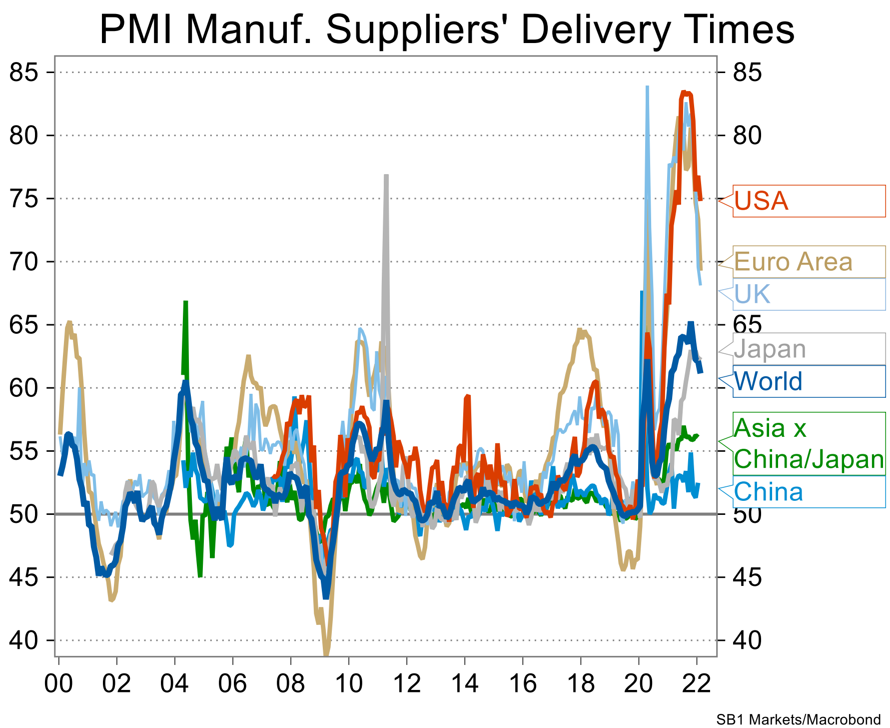


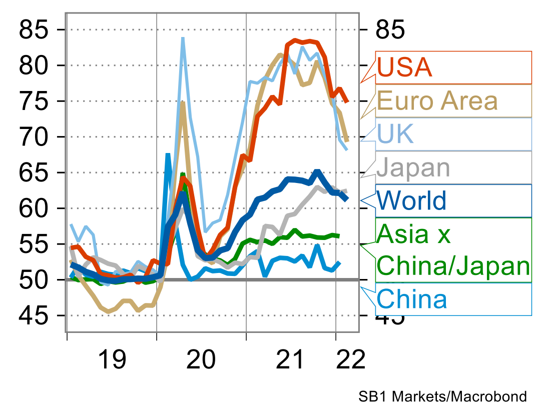


- Growth has very likely peaked, at least in the rich part of the world – but the setback in January was probably not the start of "the next recession", at least not due to things that happened in January. Now, the war in Ukraine and economic war against Russia may create new challenges – even if 'geopolitics' normally are not important for the economic cycle

Delivery times index further down in February, for the 4th month in row

Are delivery times increasing less faster or are they outright declining?





- Long delivery times have been a rich man's problem, while delivery times have not been that problematic in Emerging markets, China included

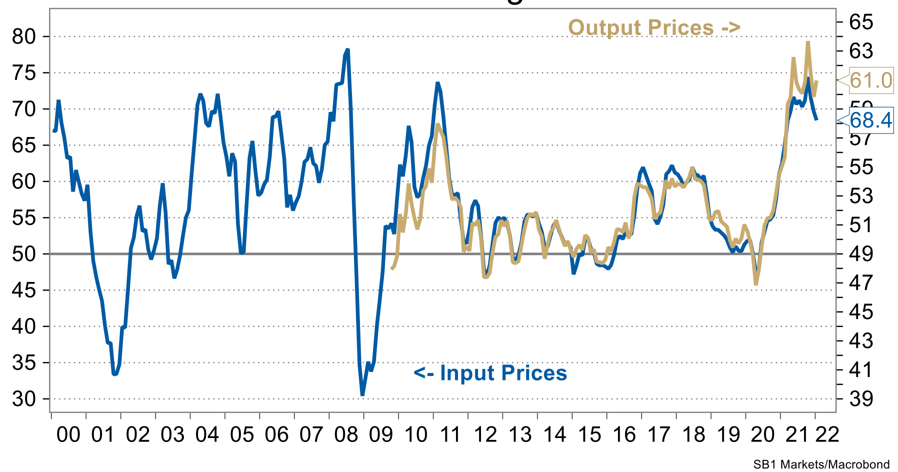
- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has been inching down since the peak in October, including a likely further decline in February. The decline is broad among in The Western rich countries
- **The interpretation of this index is uncertain** – are companies really reporting changes in delivery times – which they are asked to do?
  - » This index as been above 50 most of the time (the past 20+ years), formally implying a continuous increase in delivery times. However, delivery times have surely not increased almost all the time – they have rather fallen! Companies may be reporting the level of delivery times. If so, delivery times are now contracting – while the index formally reports than delivery times are increasing at a marginally slower pace

SpareBank 1 MARKETS

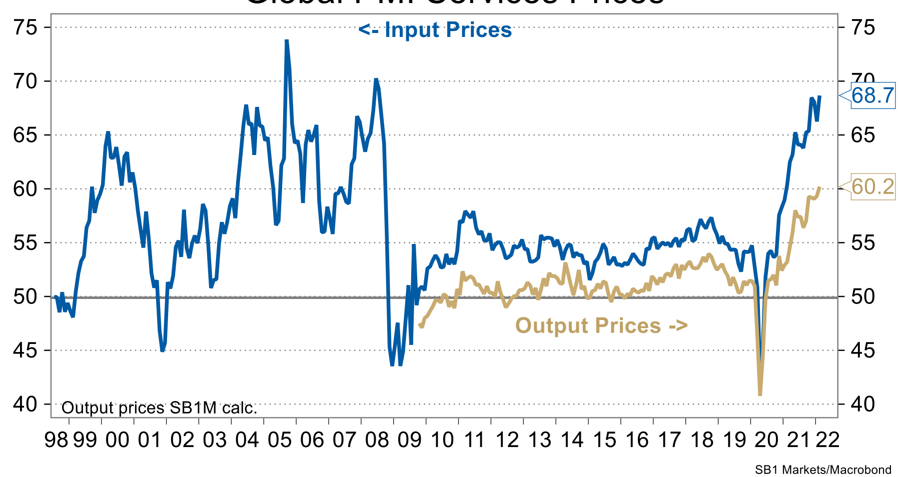
Price indices have peaked, at least in manuf. – but they remain high

However, as soon as energy & other commodity prices stop rising, inflation will retreat rapidly

Gobal Manufacturing PMI Prices

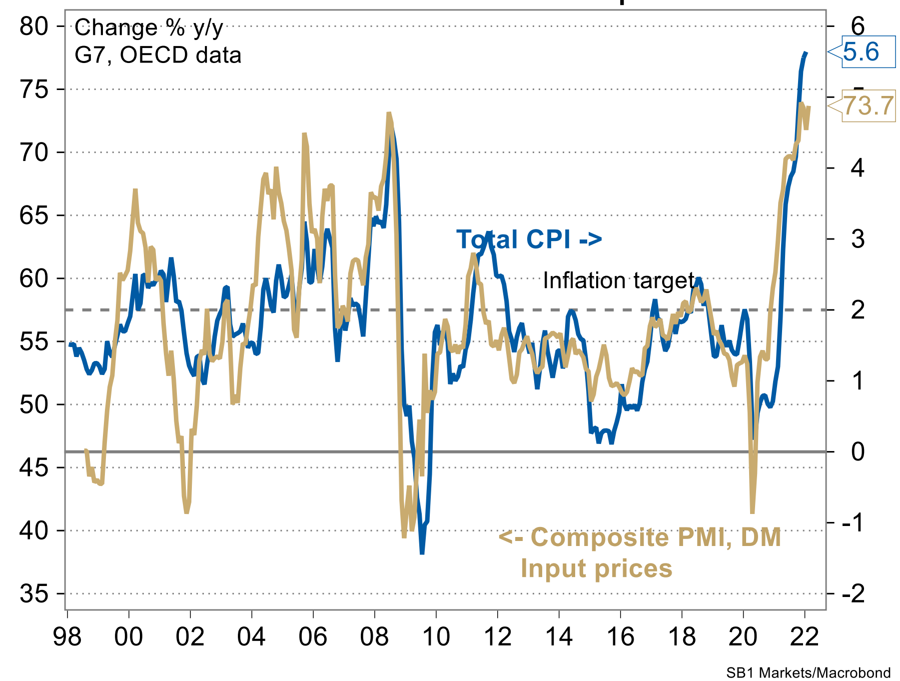


Global PMI Services Prices



The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and the US

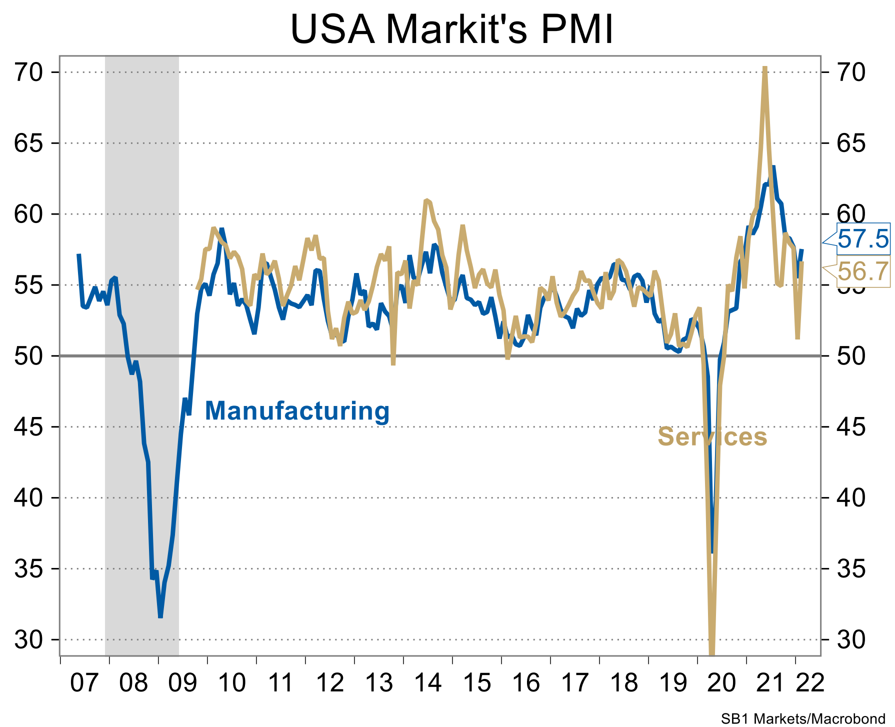
OECD Inflation vs PMI prices

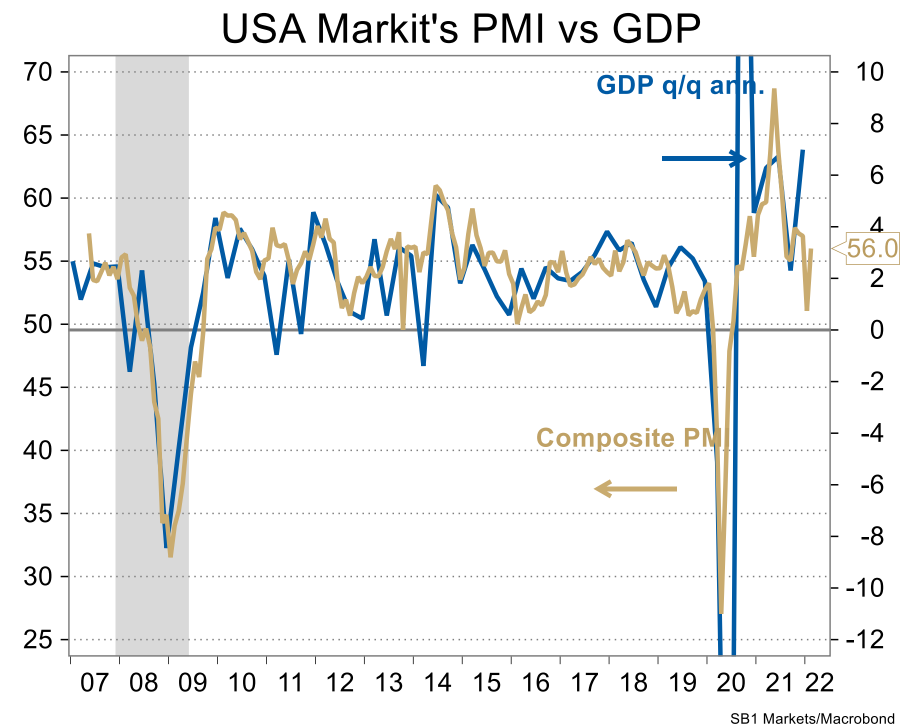


- In manufacturing, the price indices have clearly peaked
- Prices have not yet eased in the service sector, at least not output prices
- We are still much more concerned about wage inflation than the actual price inflation due to factors that most likely are transitory, like hikes in raw material prices, freight cost (which already may be yielding) or short lived margins expansion when demand is surprisingly strong

The PMIs back up to a normal level in Q4

Following the unusual 5.9 p drop in the composite PMI in Jan, a 4.9 p lift in Feb, to 56, above average

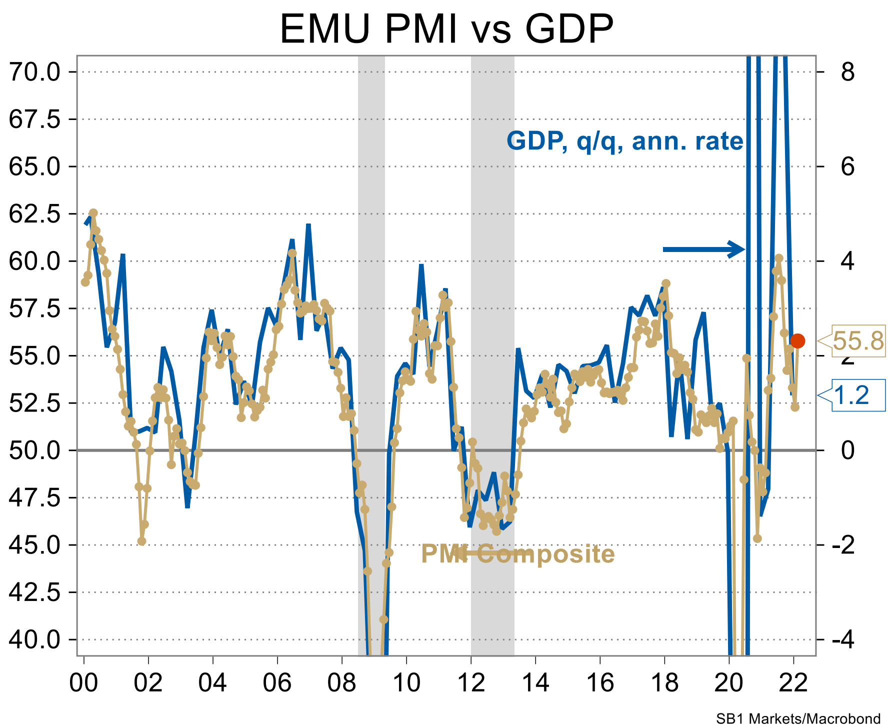


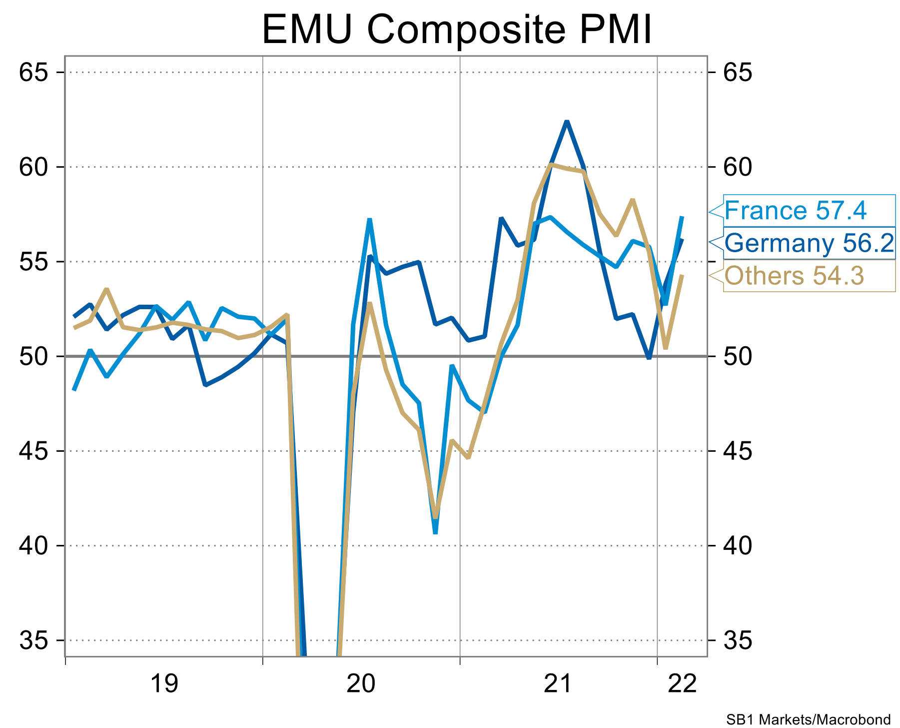


- **The composite PMI** reported of the largest increase, following the 3rd largest decline ever (data from 2007) in January. The index was expected up by 1.4p, the outcome was +4.9
- **The service sector PMI** recovered most of the Jan loss, as did the manufacturing PMI. Both are well above an average level
- **The price indices** rose, both input and output prices (the composite index)
- A positive sign: the **delivery times index** fell somewhat – and it is trending down
- Companies report that **employment** rose at a brisk pace in February, especially in the service sector
- **What happened??** We suspect the Omicron variant created some challenges in January – and less so in February

The composite PMI up 3.5 p to 55.8, the best level since September

Both France and Germany – and EMU in total – surprised sharply at the upside

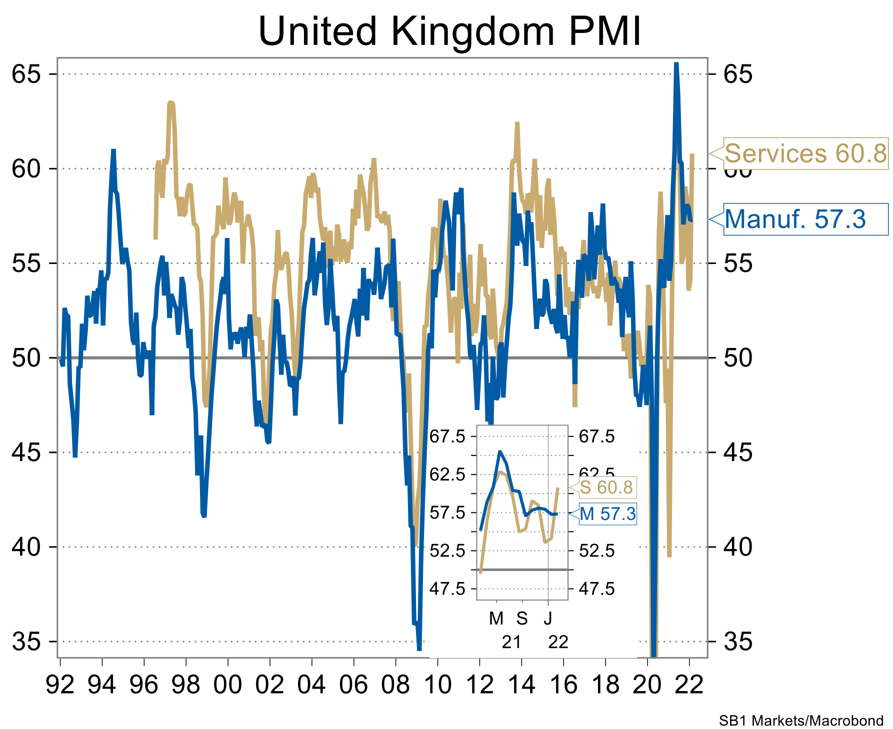




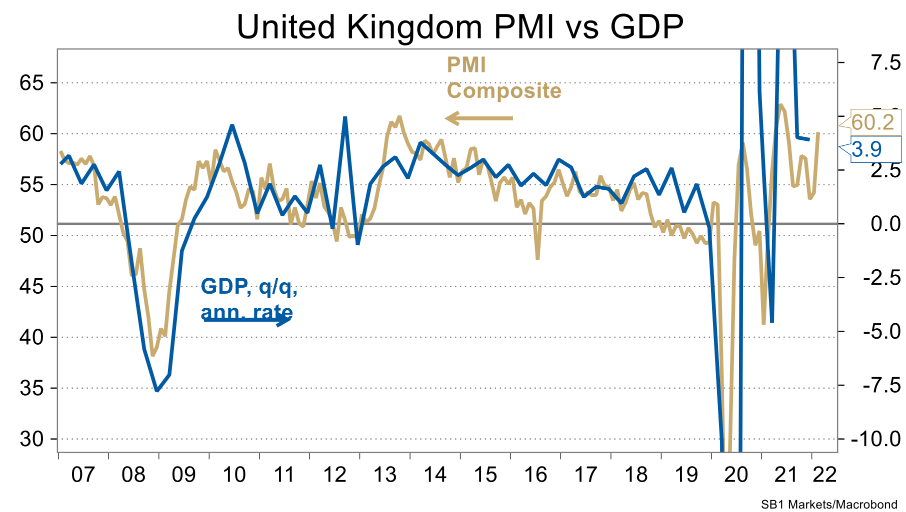
- The composite was expected up 0.6 p to 52.9 – and the outcome, +3.5 p was close to the highest estimate. The index signal a 2.5% growth rate (regrettably) above trend growth in the EMU
  - » We said it had to the fight against the Omicron, when the PMIs (except in Germany) fell off the cliff in January. The recovery in the PMIs in February more or less confirms the case
- The uptick was broad geographically

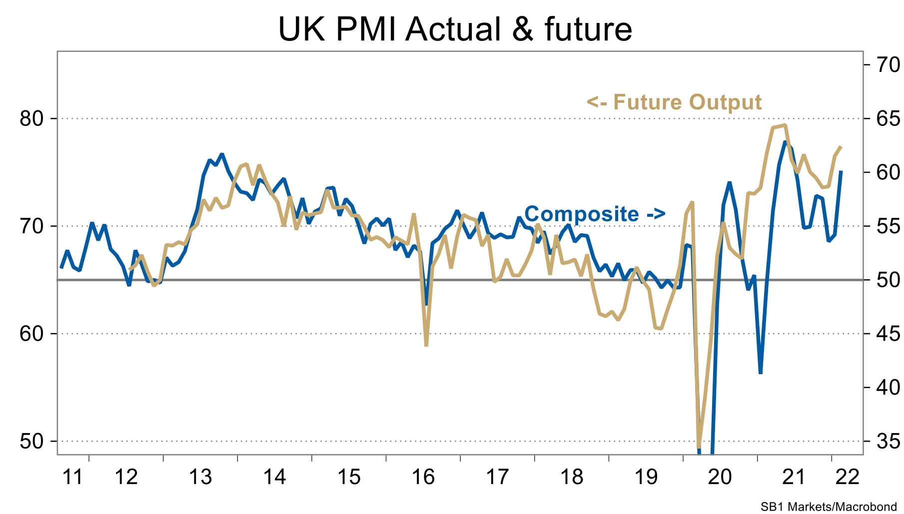
The PMIs straight up in February, services saved the day

Services up 6.7 p to 60.8, 5 pp better than expected. The composite index up to above 60 → GDP +4%



- **The manufacturing index** was unch at 57.3, a strong print
- **The service sector** index rose far more than expected – and the level is very high

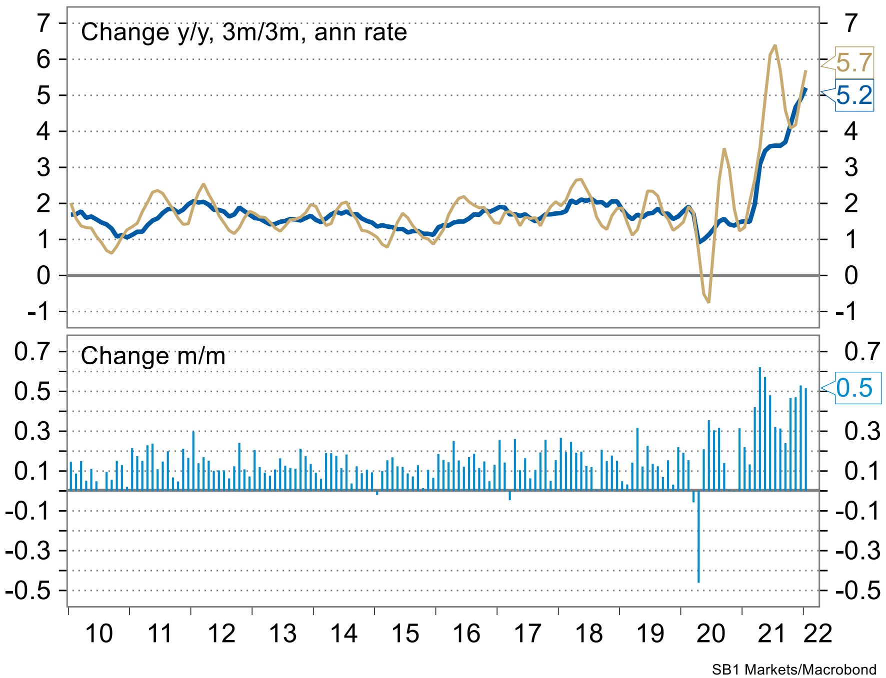




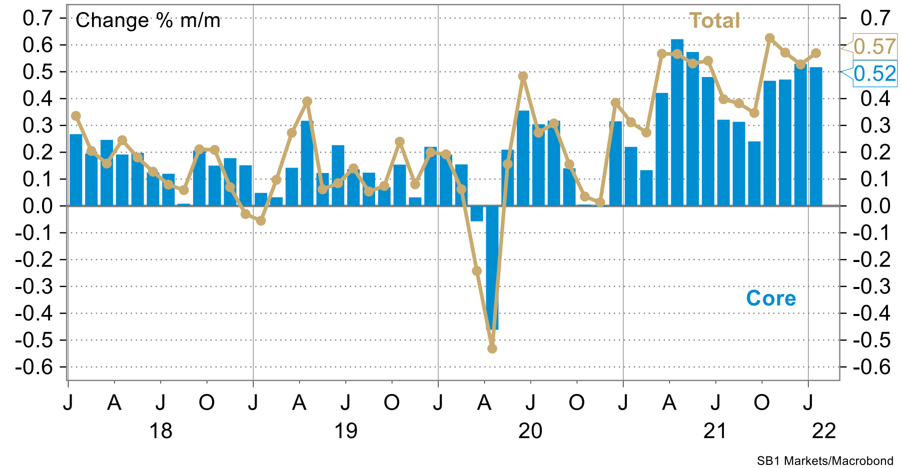
The PCE consumption deflator joined the CPI's large ~~Oct~~ ~~Nov~~ Dec hike

Inflation is accelerating, and broadening. A substantial part of it is quite likely transitory but not all

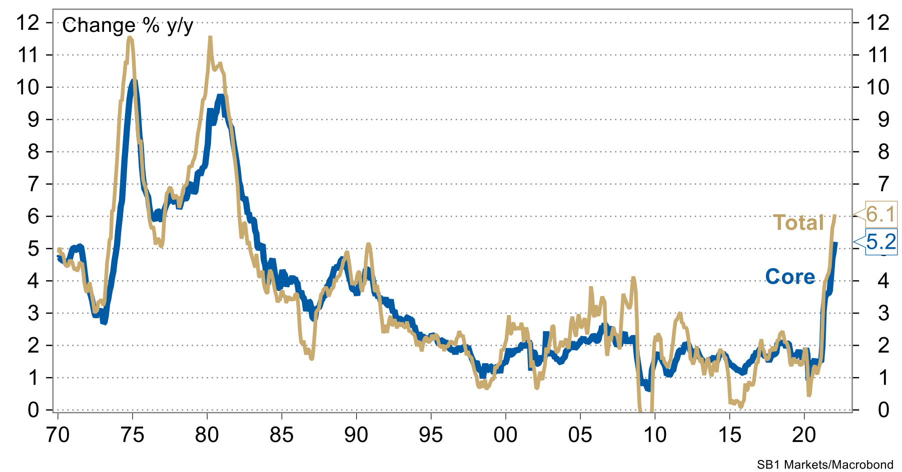
USA Core PCE deflator



USA PCE deflator



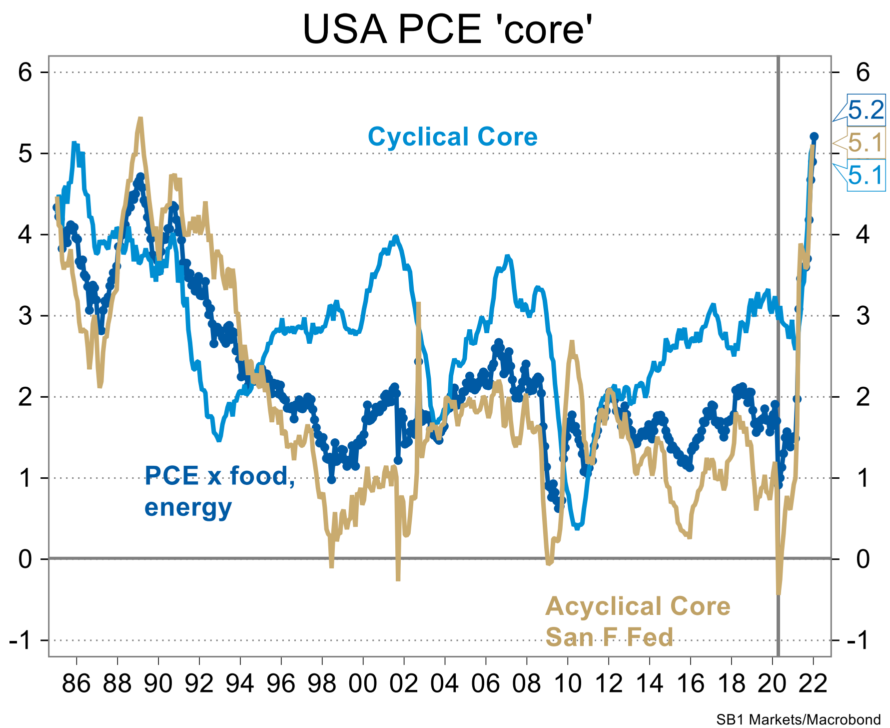
USA PCE deflator

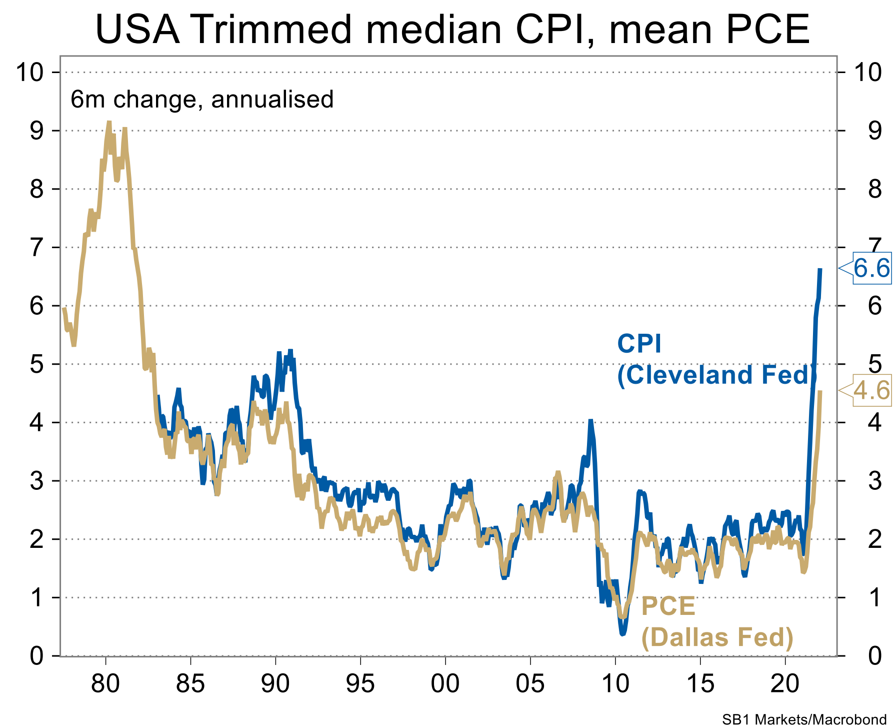


- **The total PCE deflator** rose by 0.6% in Jan, as expected, and the annual rate accelerated 0.3 pp to 6.1%, the highest since 1982
- **The core PCE** rose by 0.5% m/m, also as expected. Measured y/y, the core gained 0.3 pp to 5.2% - and has not been higher since 1983
  - » The 3m/3m rate is close to 6%
- **The price level** is far above Fed's 2% long term path target, and the FOMC members expect inflation to remain above 2%, at least they did in December. And inflation news has not been at the positive side recently?

Inflation has broadened further, even more prices are climbing faster

All 'underlying' measures are at levels we have not seen in decades

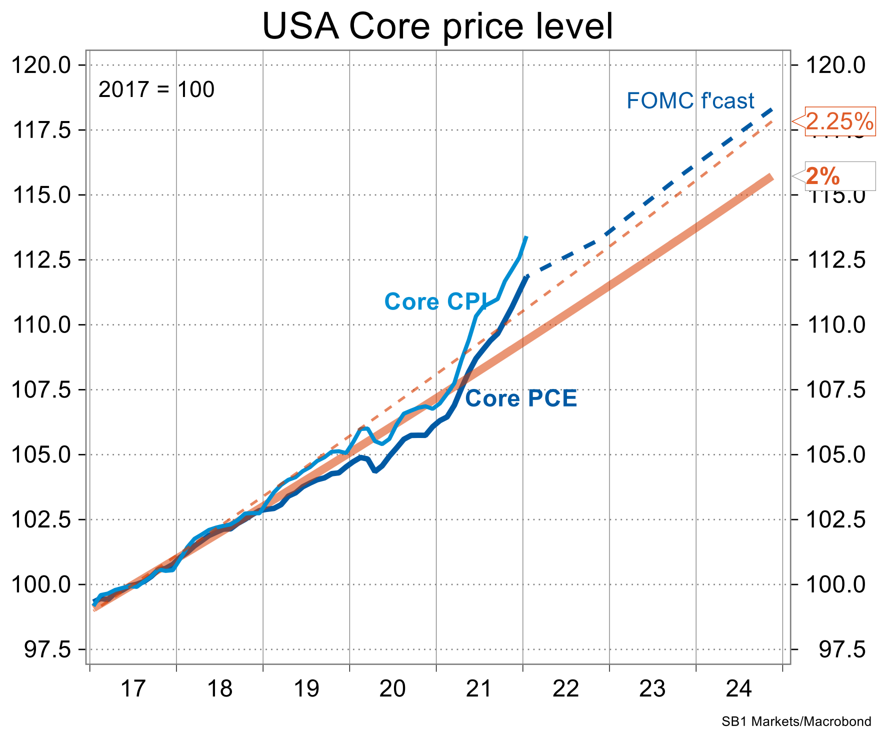


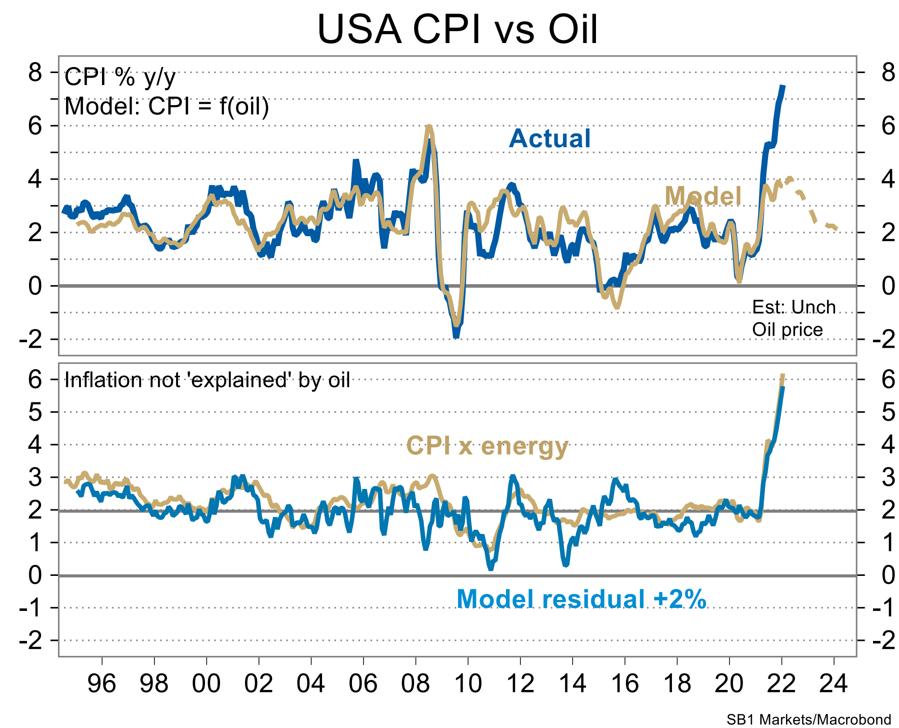


- The **trimmed PCE mean** (Dallas Fed) is up at a 4.6% pace over the past 6 months, up from 2% ahead of the pandemic (and 3.6% in December). This indicator of underlying inflation has not been growing faster since 1983
- The trimmed median CPI (Cleveland Fed) is up 6.6% over the 6 months, the highest on record, data back to 1983
- Both core cyclical and acyclical PCE prices are up more than 5% y/y
- Other measures of underlying inflation are also at the highest levels in 30 years
- At that time – 30 to 40 years ago – the Fed funds policy rate was not at zero

The Fed expects the 2% price target to slip, even if the employment target is met

… or more than that. Well, if so, it is not that difficult to figure out what too do!



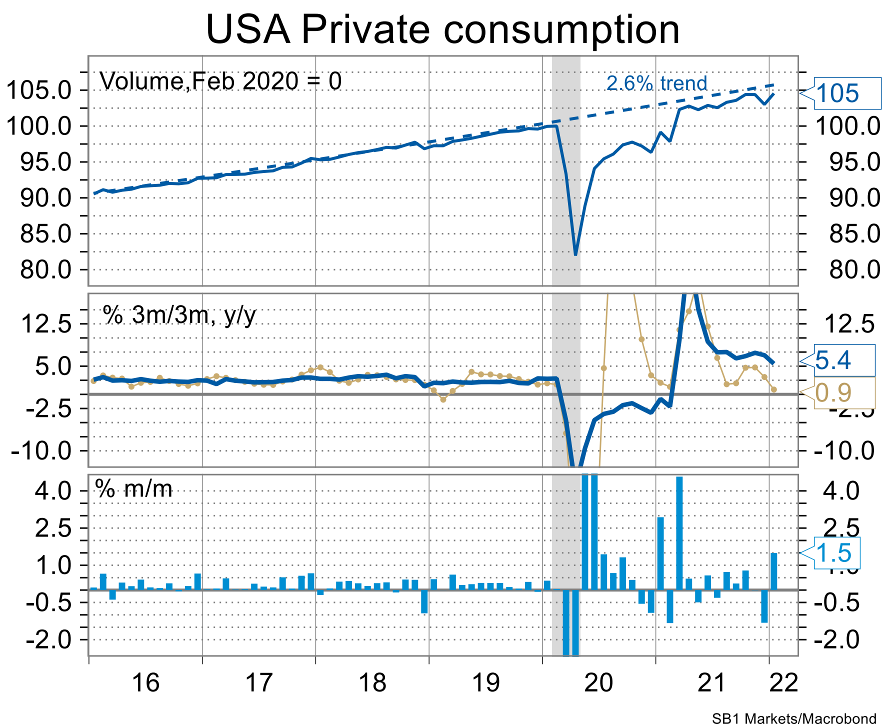


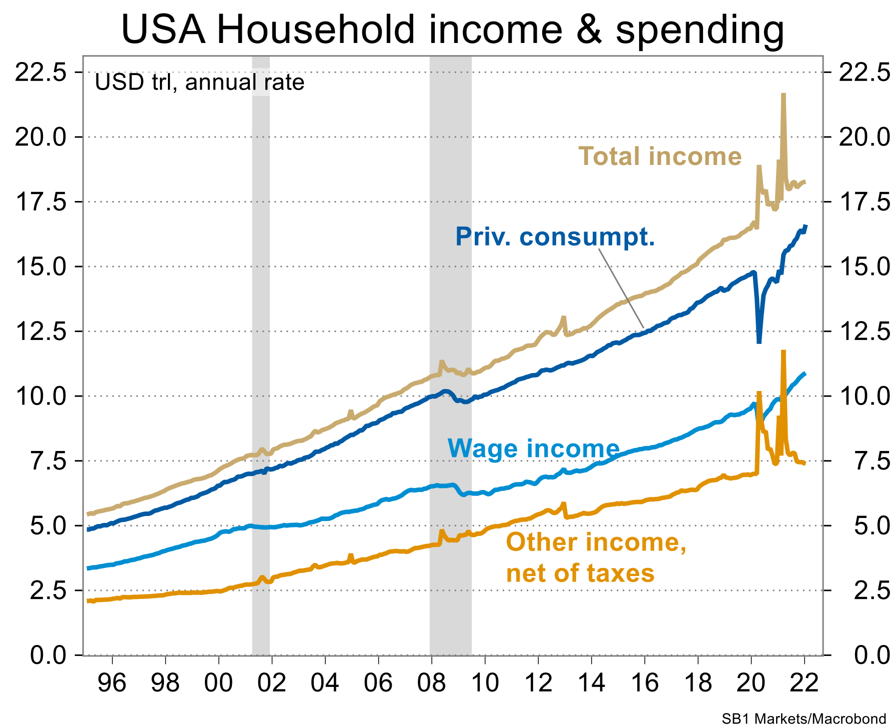
We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long, and the impacts on consumer prices are normally short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC inflation = wage inflation – productivity growth
- **A tight labour market** normally implies higher wage inflation. Now, the vacancy rate is extremely high, and all wage cost indicators signal higher wage growth. This is the real challenge for the Fed.

Real consumption down 1% in December, goods down 3% - broad based

Real incomes fell by 0.2% - and the savings rate added 0.7 p to 7.9%, in line with the pre-p level

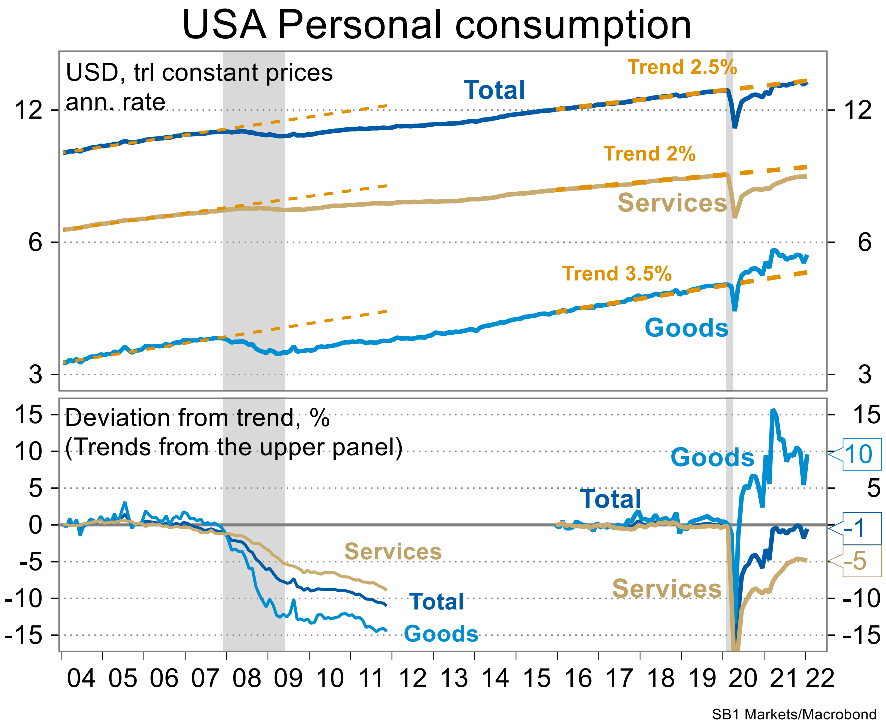


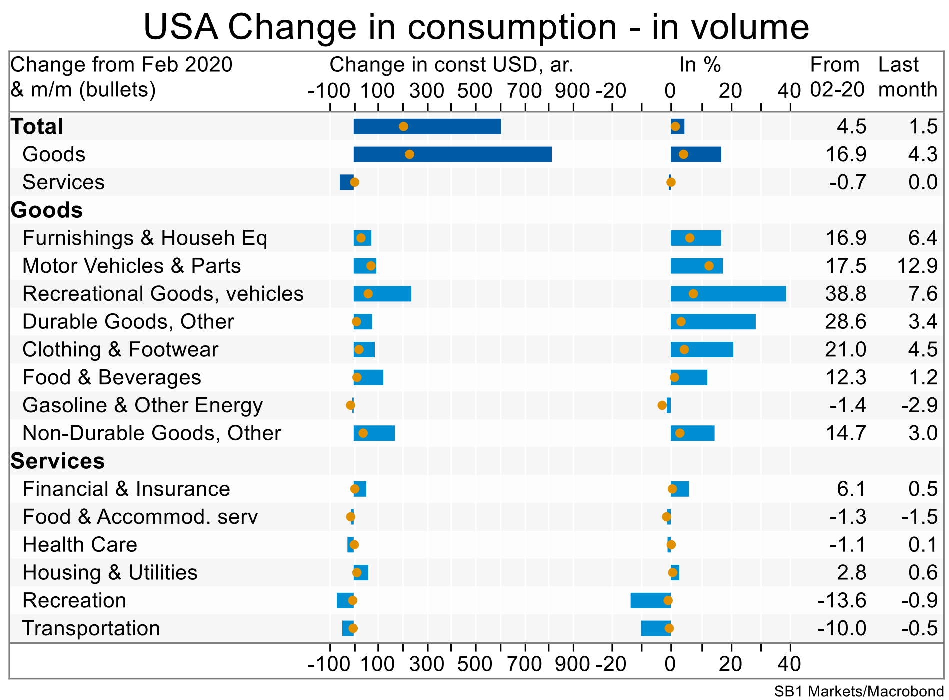


- **Private consumption** gained 1.5% Jan, expected up 1.2%. The setback Dec was larger than first assumed, -1.3% vs. -1.0%. In nominal terms, spending roose by 2.1%, expected 1.6%. Thus, the Dec setback was reversed in January – even if services no doubt were kept down due to the Omicron variant. Consumption is up 5% vs. Feb-20; Goods are 17% up, service are still down 1%. No doubt, goods consumption slow, services will accelerate the coming months
- **Real personal disposable income fell by 0.5%** in Jan, as nominal incomes grew 0.1% (expected -0.2%), and prices rose 0.6%. Wage revenues contributed the most at the upside, less transfers at the downside. Underlying wage income growth is still strong – and nominal wage incomes are still well above the pre-pandemic trend path
- **The savings rate** fell by 1.5 pp to 6.4%, to below the pre-pandemic level. However, households have saved an extra amount equalling 13% of one year's disposable income during the pandemic and has ample capacity to keep consumption growth above income growth – in average, that is

Goods consumption recovered neatly in Jan, services retreated, due to Omicron

Services are still 5% below the pre-pandemic trend, goods are 10% above!





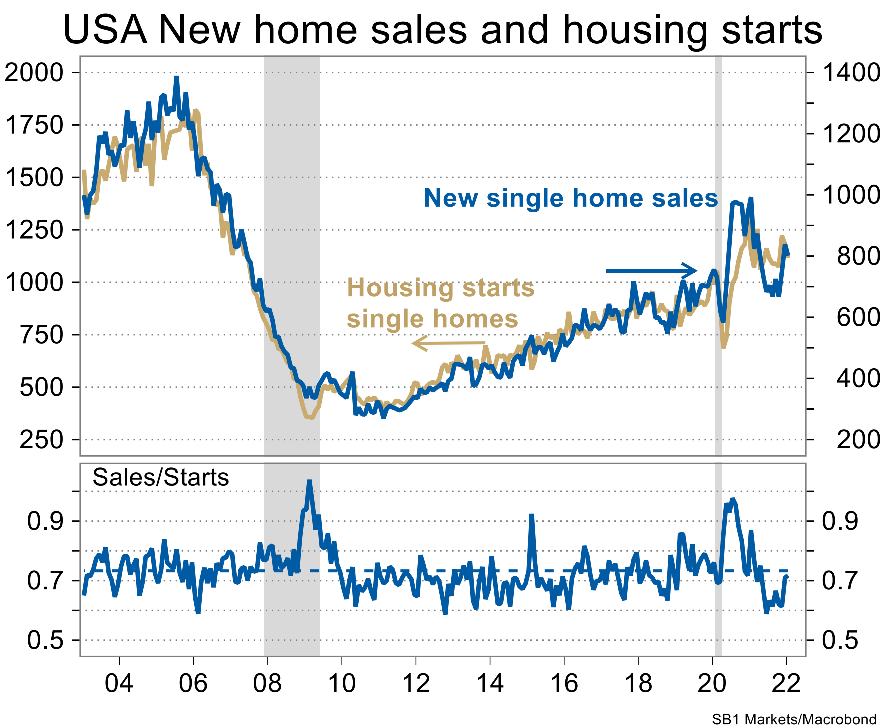
Change from Feb 2020 & m/m (bullets)	From 02-20	Last month
Total	4.5	1.5
Goods	16.9	4.3
Services	-0.7	0.0
Goods		
Furnishings & Househ Eq	16.9	6.4
Motor Vehicles & Parts	17.5	12.9
Recreational Goods, vehicles	38.8	7.6
Durable Goods, Other	28.6	3.4
Clothing & Footwear	21.0	4.5
Food & Beverages	12.3	1.2
Gasoline & Other Energy	-1.4	-2.9
Non-Durable Goods, Other	14.7	3.0
Services		
Financial & Insurance	6.1	0.5
Food & Accommod. serv	-1.3	-1.5
Health Care	-1.1	0.1
Housing & Utilities	2.8	0.6
Recreation	-13.6	-0.9
Transportation	-10.0	-0.5

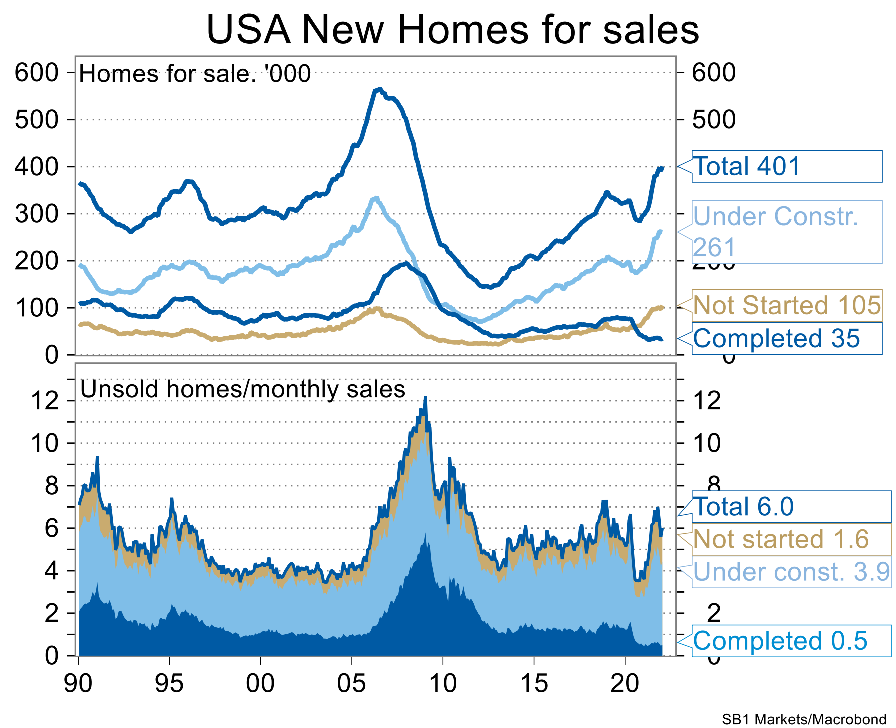
- Consumption of goods rose 4.3% m/m in January, back to the same level as in November. However, the trend is flattish, at best, and clearly down vs the pre-pandemic trend, but still far above. A substantial downside risk
- Services are recovering, but not further in January, very likely due to Omicron restrictions/changes in behaviour due to virus. The level is still 0.7% below Feb-20, and spending is 5% below the growth trend ahead of the pandemic
- Demand for durable goods are way above sustainable levels, we assume
- Spot the differences between the Financial Crisis downturn and the pandemic 'downturn'

There are some larger aggregating differentials than usual in the PCE accounts, and the sums do not add up to the total

New home sales marginally down in January, are in line with starts

The inventory is growing but the early pipeline (not yet started) has stabilised. Prices are up 13% y/y

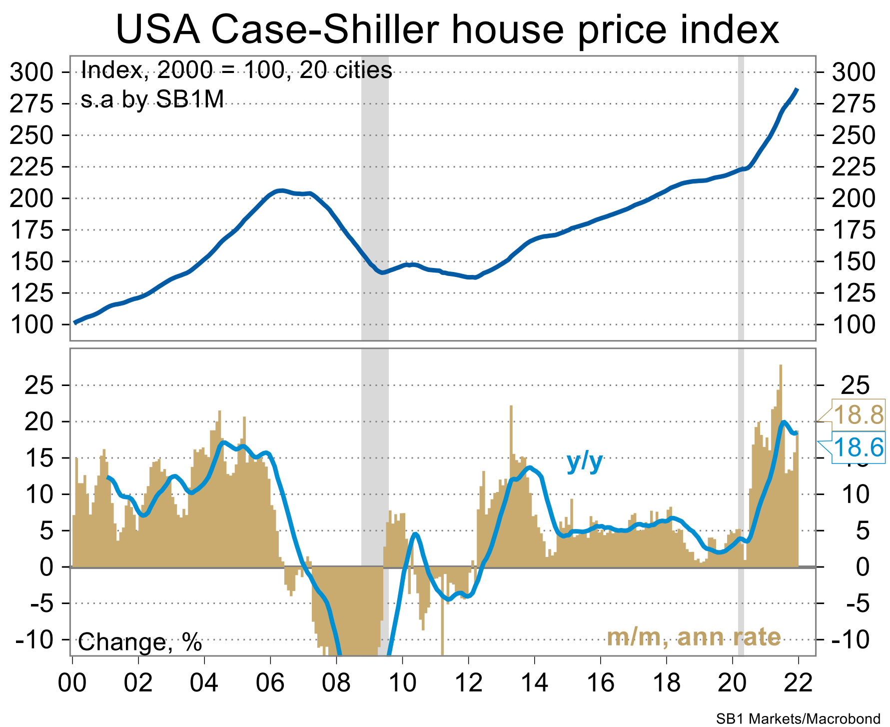


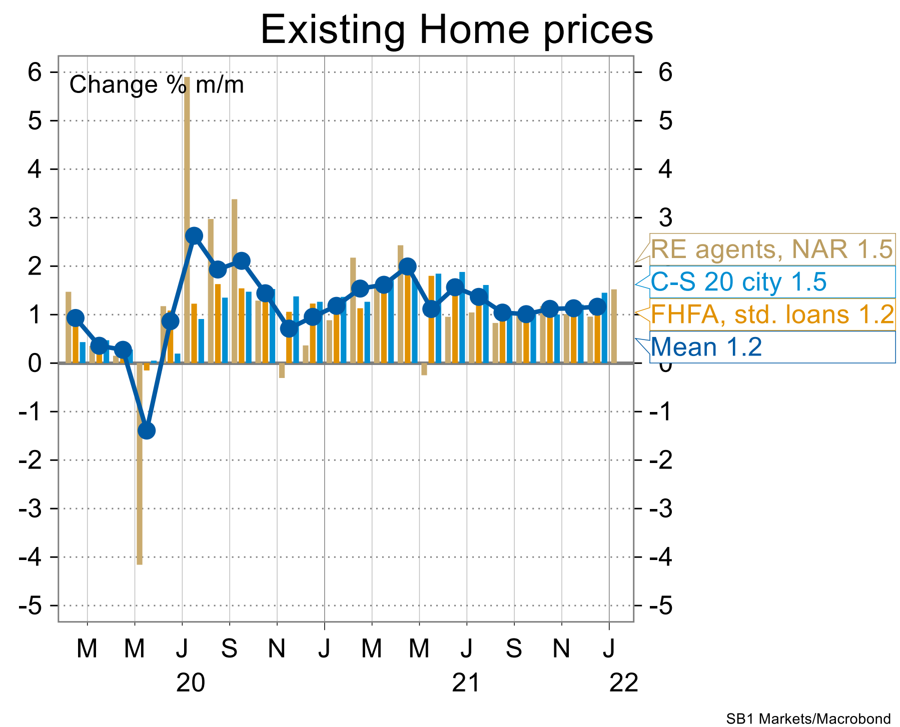


- **New single home sales fell marginally to 801'** (annualised rate) in January, as expected. These monthly figures are often revised substantially and the last observation is close to useless – but the two past months were at a decent level
- **The big picture:** Following a 30% decline from January to June, sales were stable through H2 last year, at approx. the same level as before the pandemic – until the Dec hike. Sales have been somewhat lower than normal vs. new single home starts (in avg. sales are 70%+ below starts, as may homes are built by the homeowner)
- **The inventory of unsold homes** has increased by 45% since Oct 2020, and the level is the highest since Sept 2008. The inventory equals 6 months of sales, a bit higher than 'normal' – and up from the record low level at 3.5 months in Sept 2020
  - » The increase in the inventory is not due to large increase in completed house for sale (the most 'effective' supply), and the inventory just equals 15 days of sale (half of a normal level). However, the no. of projects not yet started (but for sale) has doubled, to the highest number ever, and the no. of new homes for sales but which are still under construction has climbed rapidly, to the highest level since 2007. So, there are lot of homes in the pipeline, and clearly a confirmation that the supply side is responding to the steep increase in demand. At one stage, combined with higher mortgage rates, that could change the housing market outlook

House prices inflation is accelerating again?

The Case/Shiller index gained 1.5% m/m (18.8% annualised), and the annual rate is 18.6%!

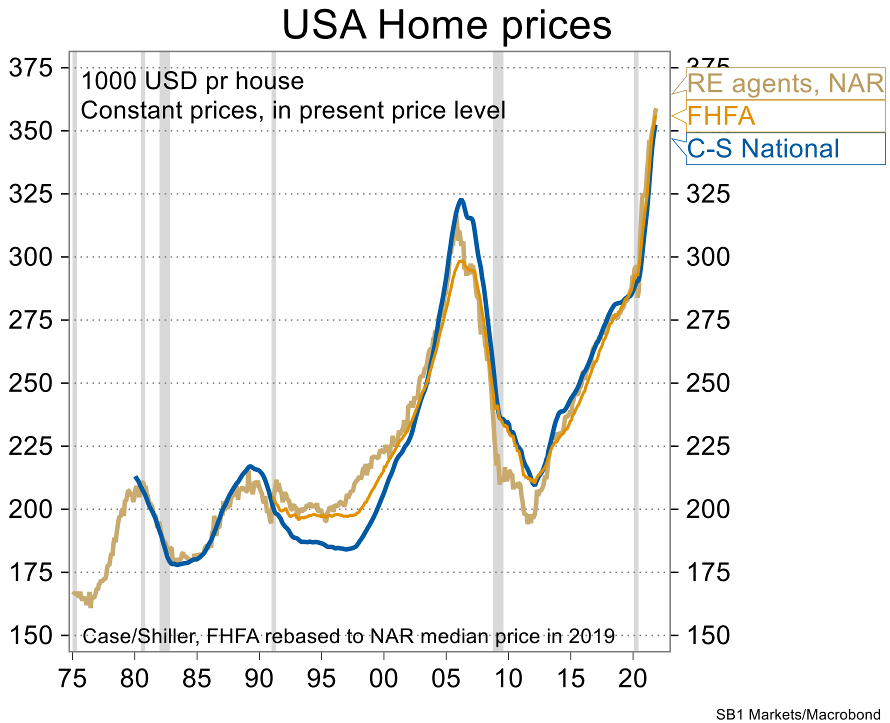


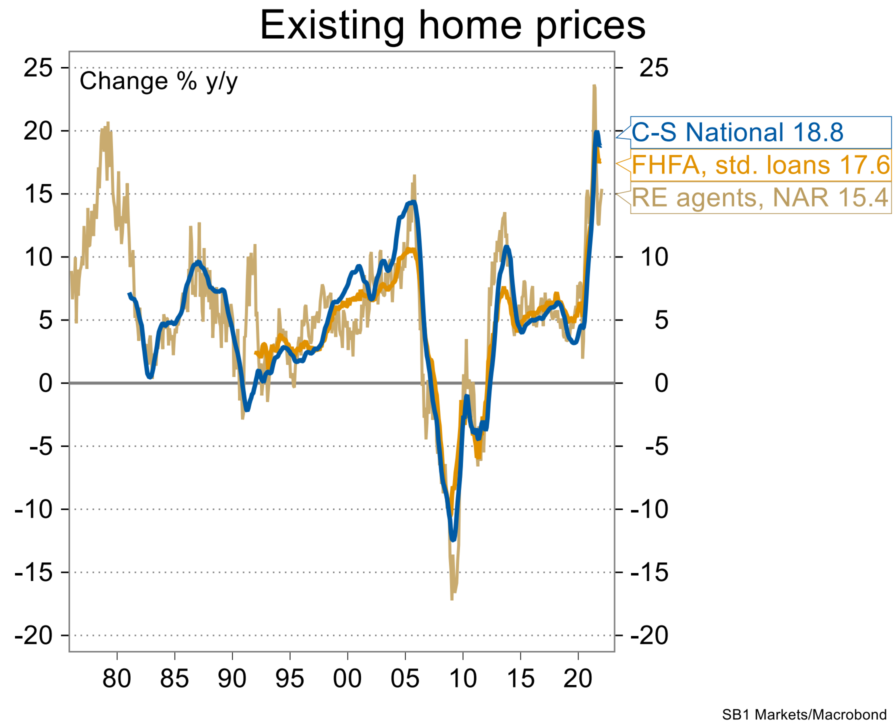


- **S&P's Case/Shiller's 20 cities** price index rose 1.5% m/m in Dec (Nov – Jan avg), expected 1.2%, equalling a 18.8% annualised pace, up from 1.2% in Nov – and 0.9 % in October. The annual growth rate was 18.6%, 0.5 pp higher than expected. Prices are up 30% since before the pandemic
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 1.2% in Dec, and are up 17.6% y/y. The ATH annual rate before the pandemic surge was 11%, ahead of the housing crisis 15 years ago (chart next page)
- **Relators** reported a 1.5% price lift m/m in January, the largest lift since last April

Some special house data – both measured y/y & the real price level

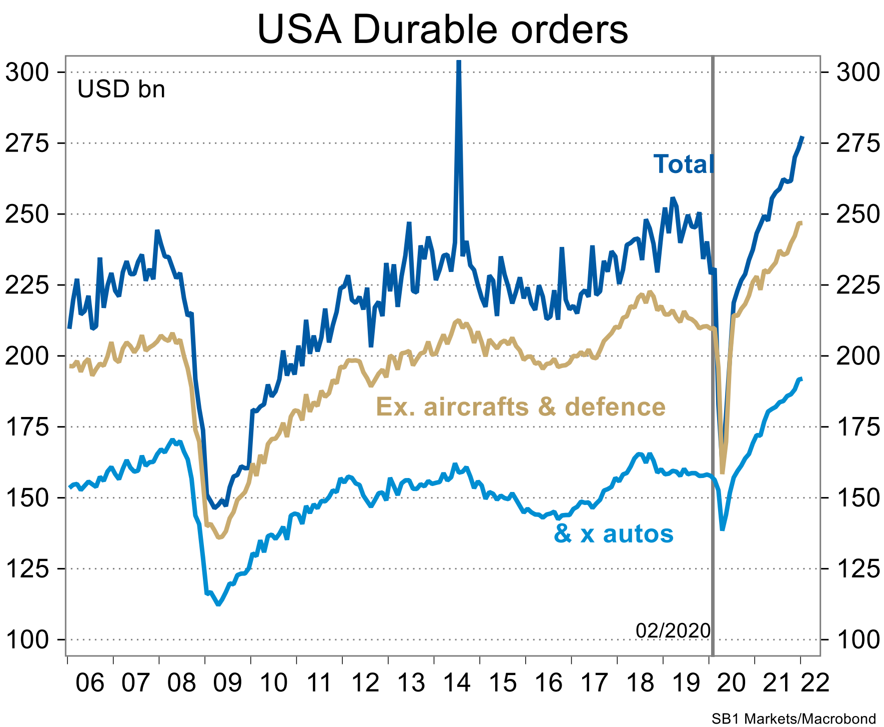
Real prices are now 10 – 20% above the pre-financial crisis level

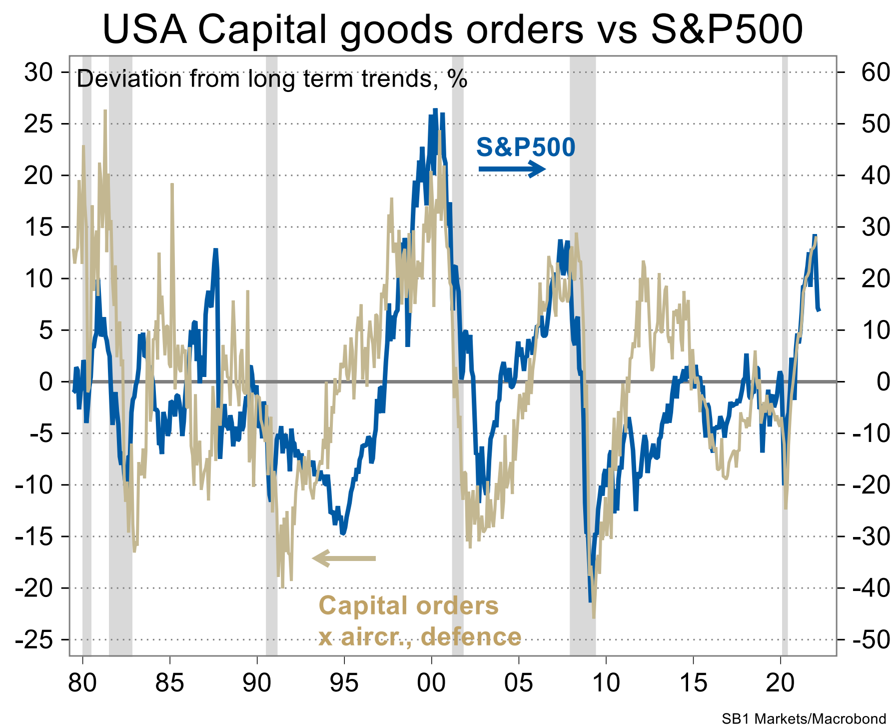




- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index reported the highest house price appreciation ever (or since 1948) during last year
- Real prices are far above the 2006 peak
- There are still some big differences vs the mid 2000 housing bubble
  - **Housing starts** are at a lower level. The **inventory** of 2nd homes for sale is record low (vs high 15 – 16 years ago). However, the inventory of <u>new homes</u> for sale is climbing rapidly
  - The **debt/income ratio** has fallen sharply since the peak before the financial crisis. However, credit growth has accelerated during the pandemic
  - The **savings rate/net financial investments rate** has now fallen to below the pre-pandemic level– but the ratios are far above the level in 2005

Strong order inflow in January too



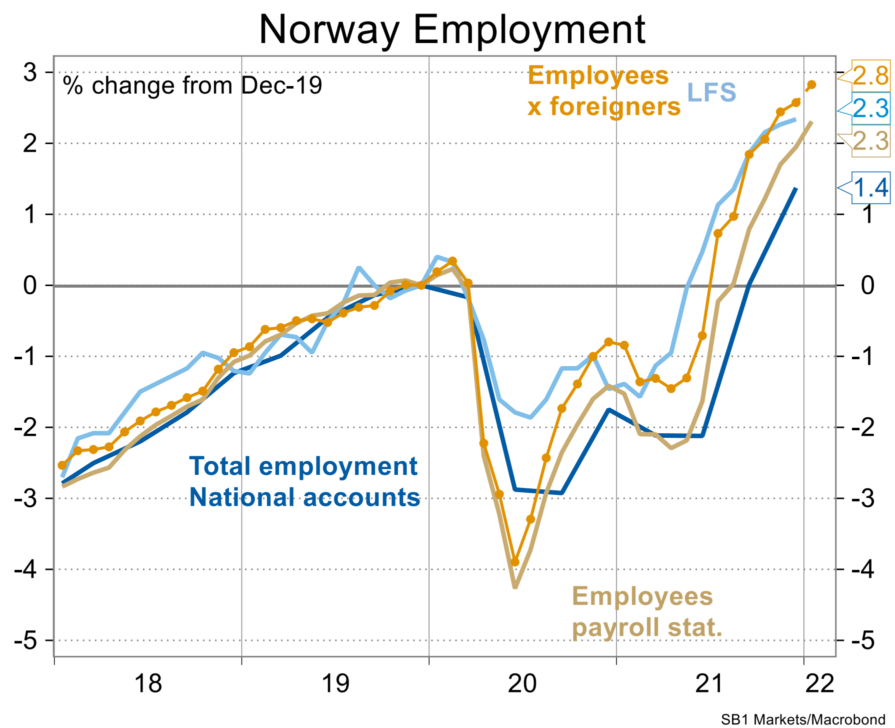


- **Total durable** rose further by 1.6% in January, expected up 0.9%, and the 0.7% decline was revised to a 1.2% uptick. Aircraft order surged in Jan
  - » Ex also defence, the order inflow was unchanged following an +0.4 pp upward revised 1.6% growth in these two components, the 'core' rose by 1.4%, well above expectations – and the trend is strong
- **Core investment goods orders** were up 0.8% (expected 0.3%) and the trend is still solidly upwards
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase coming months

SpareBank 1 MARKETS

Payrolls up 0.4% in January – level up 2.3% from Feb-19

The no of employees up approx. 2.8% among persons living in Norway. The LFS confirms strong growth

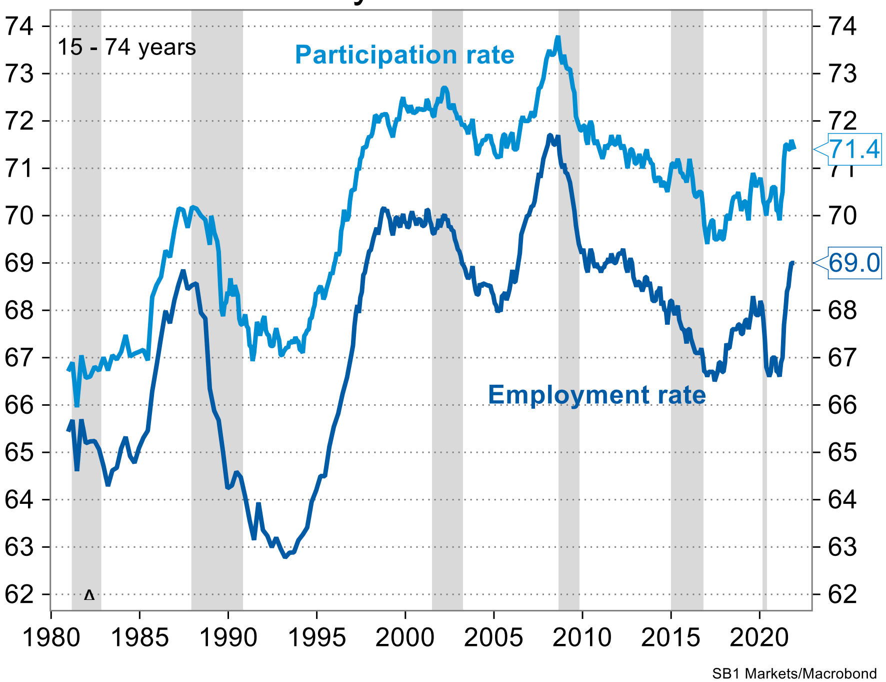


- The increase in the **register-based no. of employees** in January in spite of the Omicron restrictions confirm decent underlying growth in the Mainland economy
  - » The reference period is the week containing the 16th in months. Stricter corona restrictions were imposed by the mid of December but even so, the no. of employees grew in January too – even if some jobs were cut in restaurants & hotels
  - » Payrolls grew by 0.4% m/m, up from 0.3% in Dec – and by 2.3% vs. Feb-19
  - » We estimate the no. of employees among permanent residents (Norwegian and foreign born) to be 2.8% above the pre-pandemic level (based on our estimate of foreign workers in January, data published just quarterly)
  - » Growth is slowing but just slowly – and 0.3 – 0.4% m/m is far above the long run growth potential at well below 0.1% per month
  - » The increase in employment is broad based, check 2 pages fwd
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported a 2' (0.1%) growth in employment in Dec (avg Nov-Jan from avg Oct – Dec), and by 13' over the past 3 months, equalling a 3.0% annualised pace
  - » LFS employment is up 2.3% since before the pandemic, and both participation and employment rates are far above the pre-pandemic level – and the LFS unemployment rate has 'collapsed'
- **National Accounts** reported a 1.4% growth in total employment in Q4 (5.5% annualised) – and the level is up 1.4% vs. Q4-19. These NA data includes foreigners on short-term stay

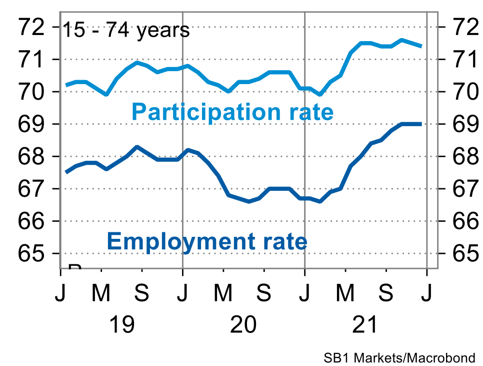
The participation rate has flattened, at a much higher level than we assumed

No further lift since last summer signals that the reserve is already engaged, no spare capacity left

Norway Labour market



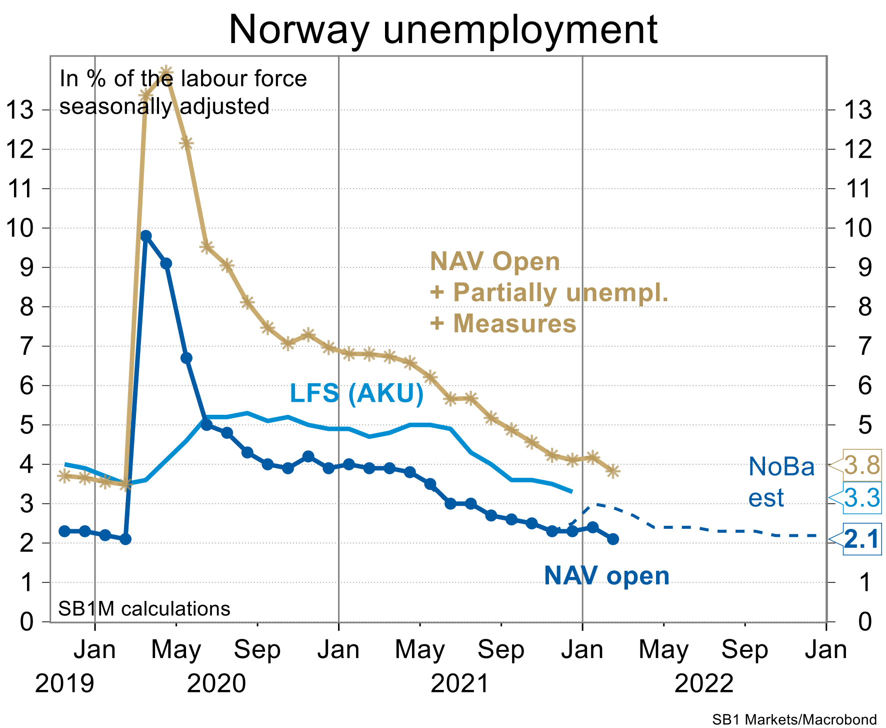
- **The employment rate** was flat in December, at 69.0%
  - » Ahead of the pandemic the rate was 68.1 – 68.2, and it is up from the 66.4 through in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - » The employment rate is the highest since 2012
- **The participation rate** is also well above the pre-pandemic level but it has more or less flattened at 71.5% since last June – and fell to 71.4% in December. The participation rate is also at the highest level since 2012
- These monthly data are volatile but the flattening of the participation rate since the early summer even if demand for labour is still increasing <u>may indicate that the easy part of 're-engagement' is behind us</u>
- **Working age population** growth is 0.6% over the last year (Q4 est), in line with the moderate growth ahead of the pandemic

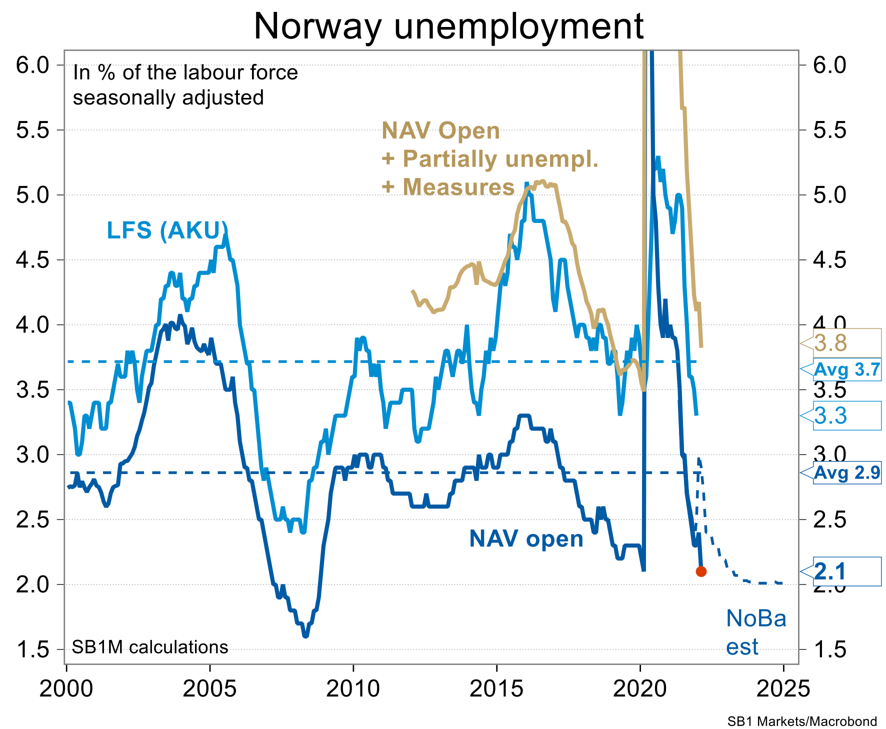


SpareBank 1 MARKETS

Unemployment fell much more than expected in Feb, new vacancies up to ATH

NAV unemploym. fell by 0.3pp to 2.1%, 0.8 pp below NoBa's f'cast. The LFS rate -0.2 pp to 3.3%!

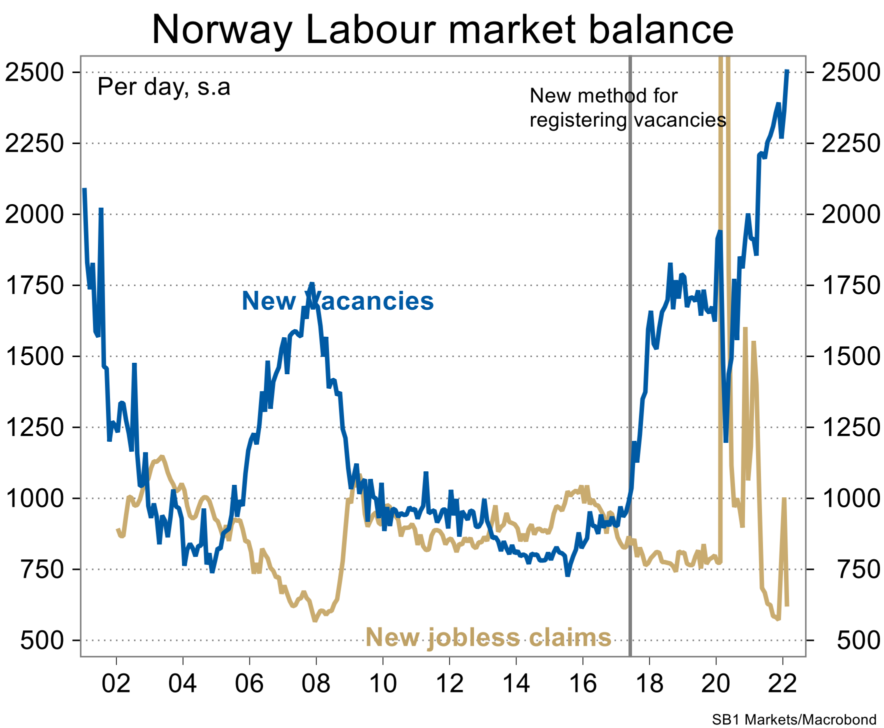


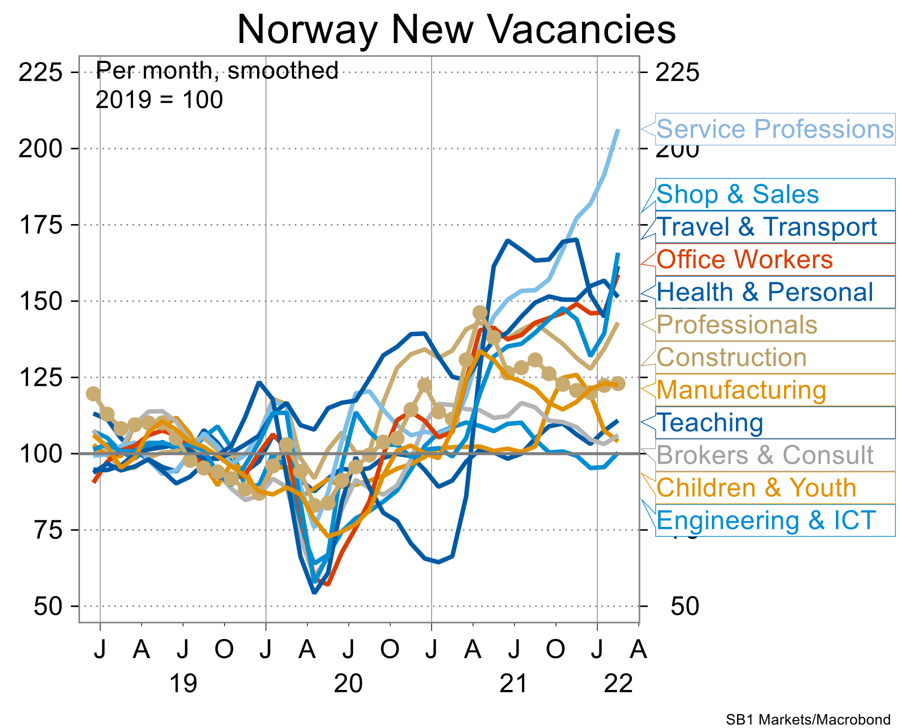


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 8.4' persons in Feb (seas. adj) to 58' we expected -4' to 63'. The rate declined 0.3 pp to 2.1%, we expected 2.3%. In Dec. NoBa assumed a 2.8% rate in Feb. Unadjusted, the rate fell 0.3 pp to 2.3%, expected 2.4%. The 2.1% rate is well below the 2000 – 2019 avg at 2.9%, and equal to the level in Feb-20 (which was lower than during the months before). Unemployment has not been lower since 2009
- The number of **partially unemployed** (not included in the ordinary unemployment no.) fell by 3' to 37', and including measures, the **total unemployment** fell by 10' to 110', to 10' above the pre-pandemic level. The overall rate fell by 0.4 pp to 3.8%, up from 3.5% in Feb-20
- The inflow of **new job seekers** fell sharply following the transitory uptick in Dec, and the **inflow of new vacancies** rose, up to an ATH
- **The LFS (AKU) unemployment rate** fell to 3.3% in Nov-Dec, from 3.5% a month earlier – expected unchanged!

New vacancies up to an ATH in February

The number of new jobless claims fell to the pre-Omicron extremely low level





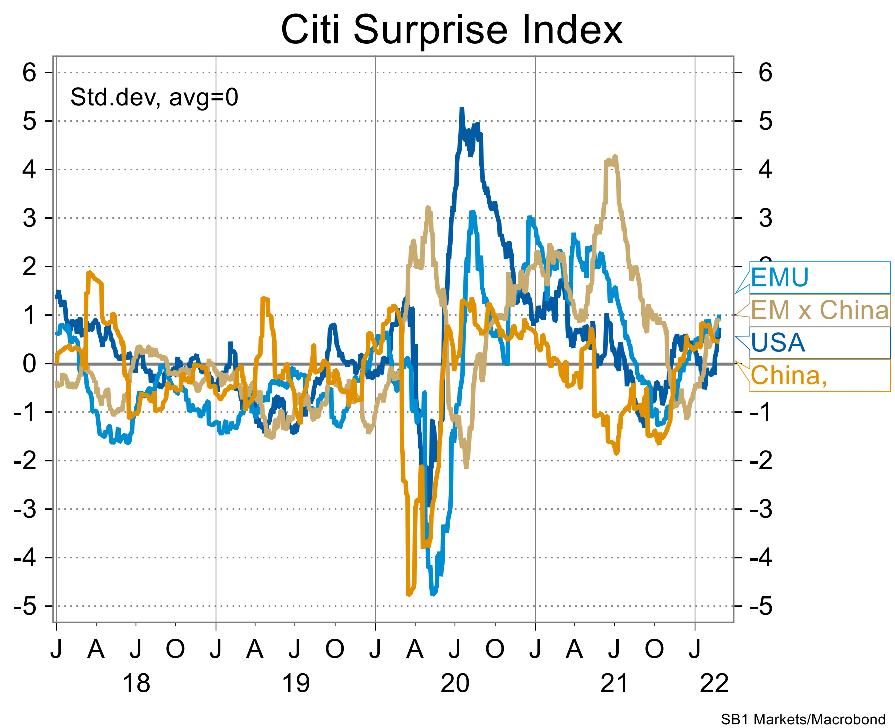
- Most sectors have announced more new vacancies, especially in service professions

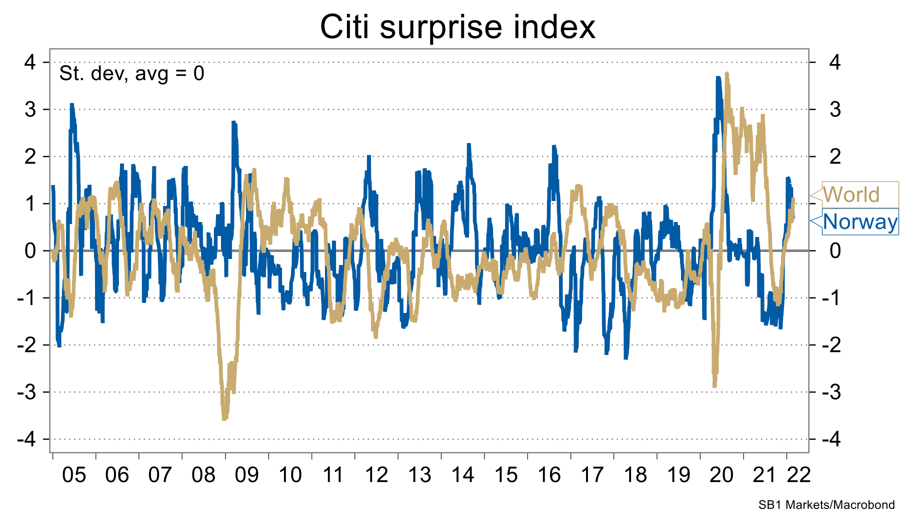
We have made a preliminary adjustment of the 2020 vacancy data due to a NAV reporting error which have led to under reporting of new positions through the year. NAV reports that the no. of new vacancies is at the same level in January 2021 as one year ago

SpareBank 1 MARKETS

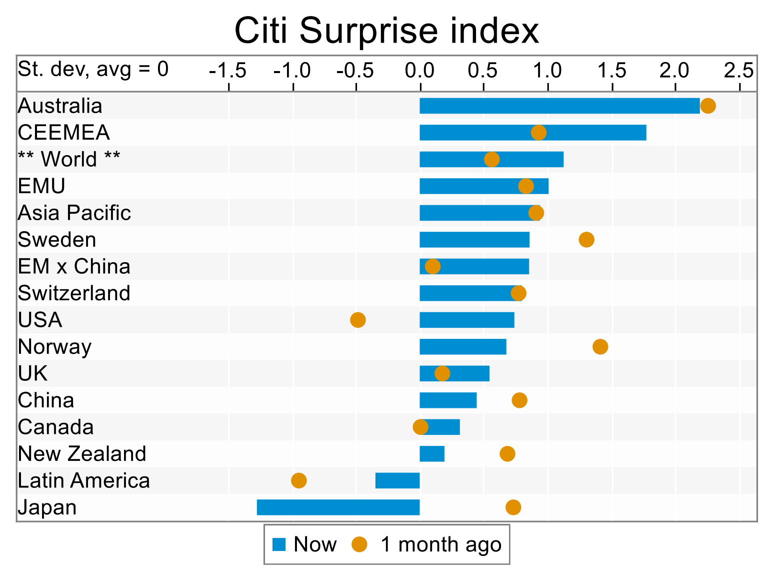
The world is surprising even more at the upside

… almost everyhere! Just Japan, and LatAm at the downside





- **Norway** was surprising sharply on the downside through most of 2021, according to Citi. But in early December we crossed the zero line, and shot up in January. Now, we come somewhat down



Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

SB1 Markets/Macrobond

Highlights

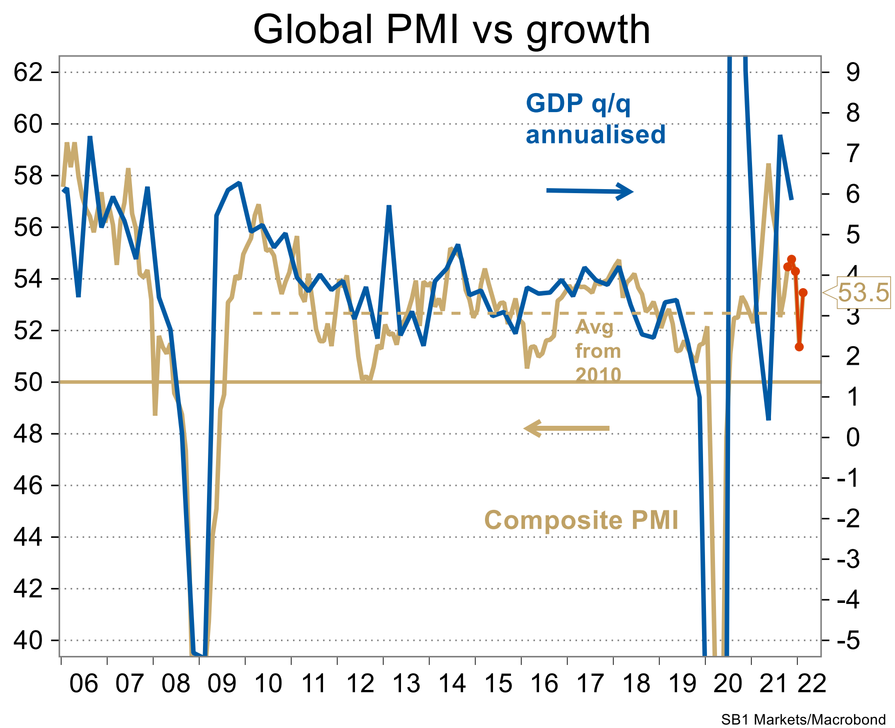
The world around us

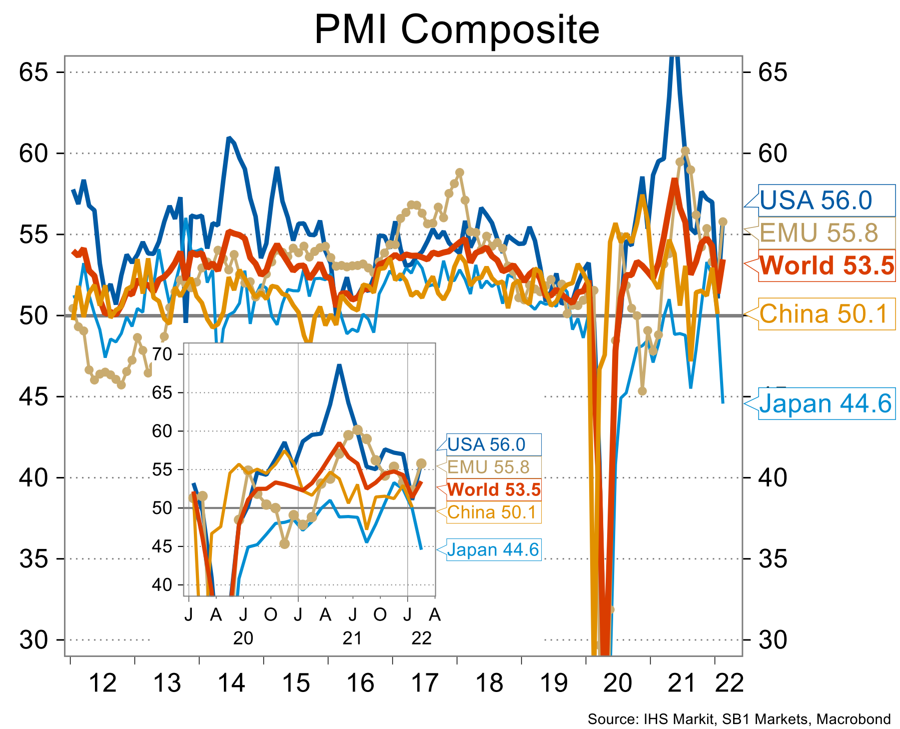
The Norwegian economy

Market charts & comments

The preliminary PMIs sharply ~~down~~ up in ~~January~~ February

We estimate +2.1p m/m to 53.5, equalling 1.5 pp higher global GDP growth, up to 3.5%



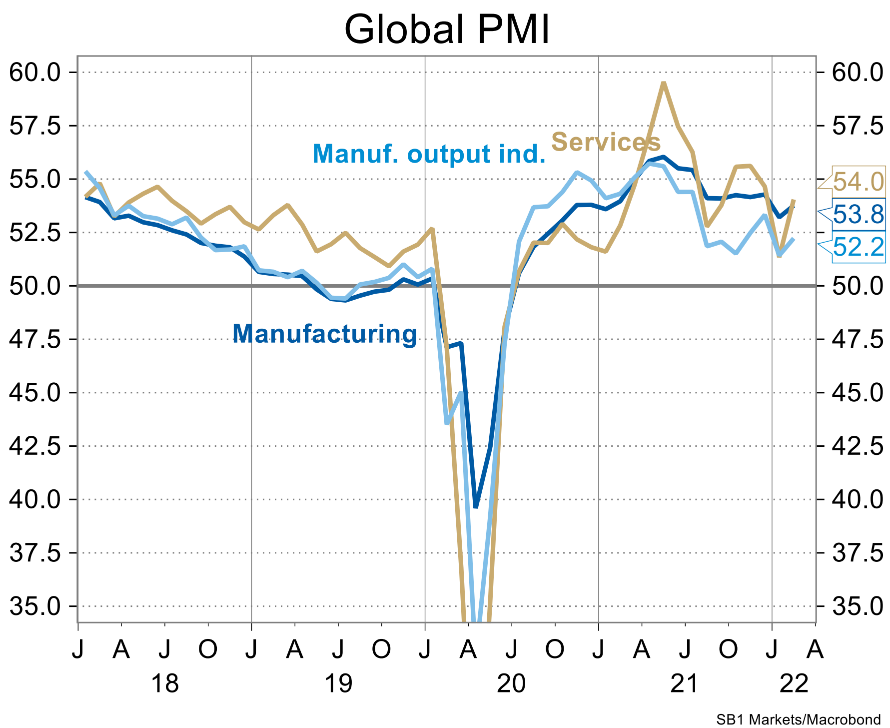


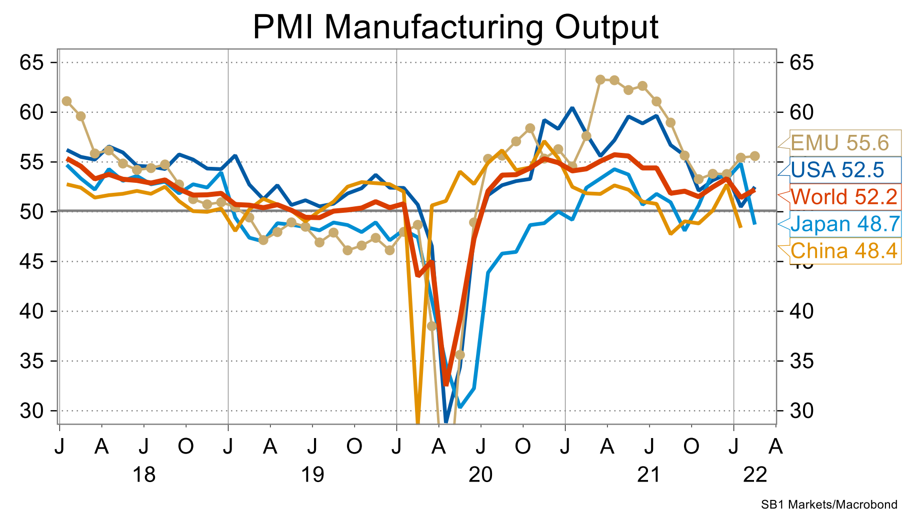
- **The flash composite PMI** was far better than expected in EMU, UK, US, and Australia but well in Japan. Our simple model – without any data from China or other EMs – signal a 2 p+ hike, reversing most of the surprising decline in January. The level is above the average over the past 12 years. Services, which fell the most last month, recovered the most in January
  - » Thus, our hypothesis was confirmed, the large January drop was an outlier, and due to Omicron trouble both sides of the Antantic
- **The delivery times index** fell for the 4nd month in row – and **price inflation slowed, at least input prices**. Both indices are still at very high levels though
- The **order index** was close to unchanged, at an average level (manufacturing). Over the recent months, a steady decline

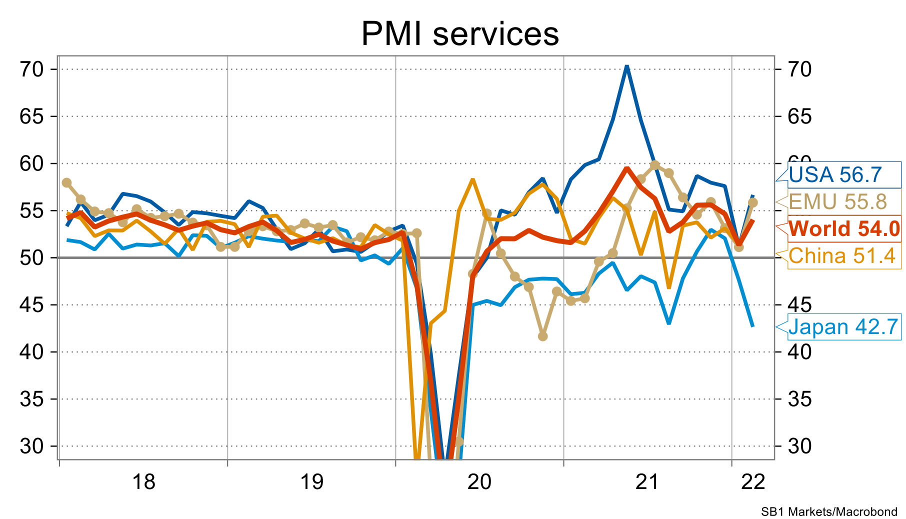
Our estimates are based on the preliminary PMIs from US, China, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p

Except for Japan, a real February reversal of the January setback

Services report much faster growth in Februar



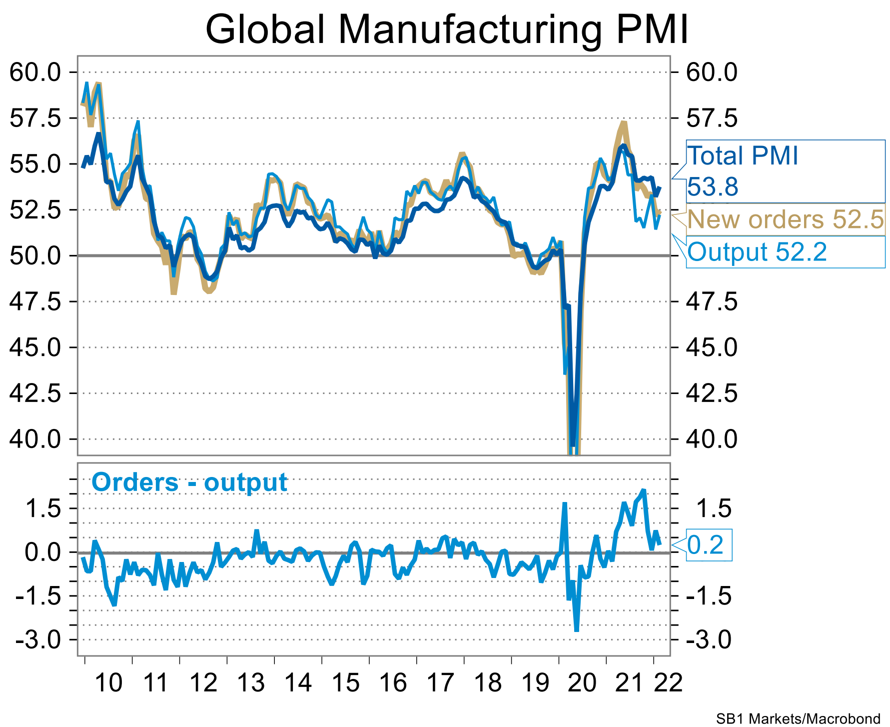


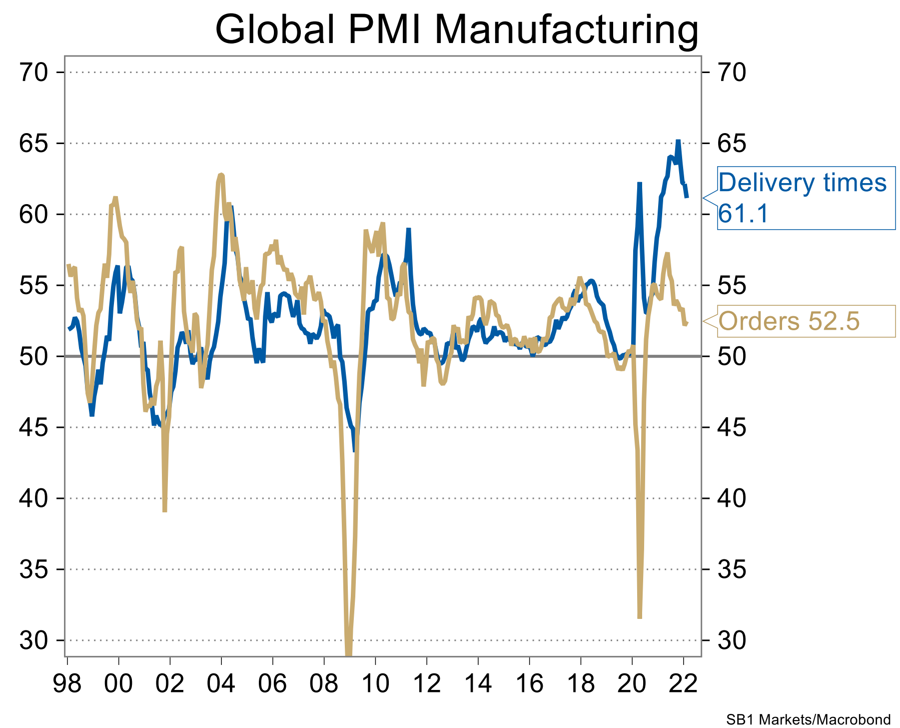


- Growth has very likely peaked, at least in the rich part of the world – but the setback in January was probably not the start of "the next recession", at least not due to things that happened in January. Now, the war in Ukraine and economic war against Russia may create new challenges – even if 'geopolitics' normally are not important for the economic cycle

Growth in manufacturing orders has slowed to an average level

The delivery times index fell further in February but remains at a very high level

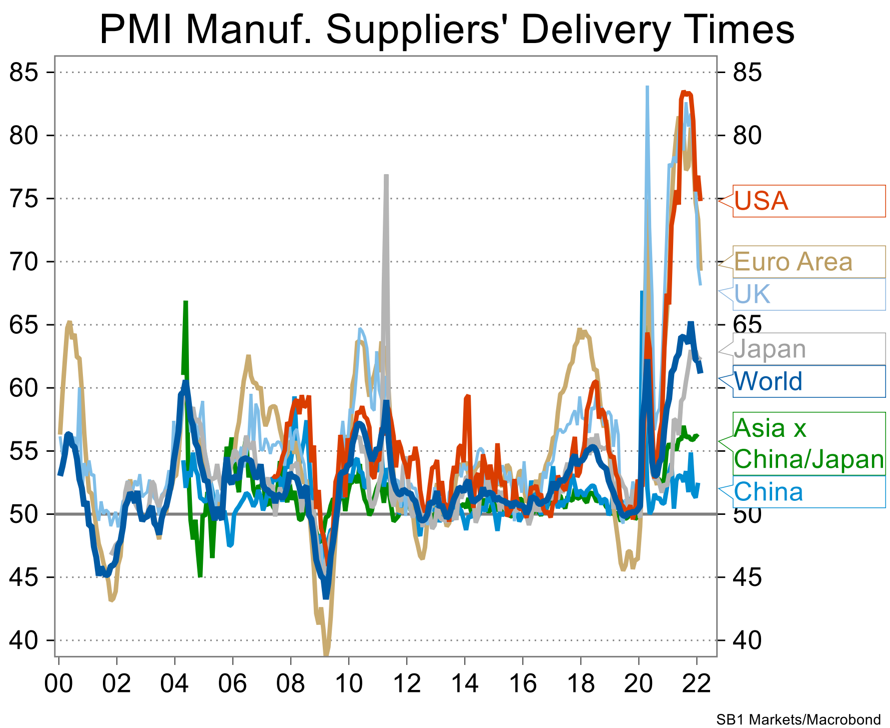


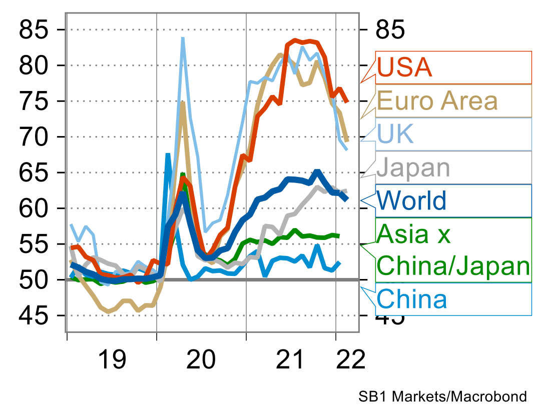


- **The current capacity in the manufacturing sector is more than reached**. The question is of course: How much is capacity (transitory) impaired by the fight against Covid-19? It is impossible to know before after the fact. Delivery times have increased more than growth in orders or production normally explain
- However, problems are most acute in Western countries where demand for goods have been much higher than normal. That may indicate the 'normal' capacity is not necessarily impaired but rather that the exceptional strong demand for goods – of course buoyed by the exceptionally fiscal and monetary policy measures during the pandemic – is the main reason for the surge in delivery times and prices

Delivery times index further down in February, for the 4th month in row

Are delivery times increasing less faster or are they outright declining?





- Long delivery times have been a rich man's problem, while delivery times have not been that problematic in Emerging markets, China included

- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has been inching down since the peak in October, including a likely further decline in February. The decline is broad among in The Western rich countries
- **The interpretation of this index is uncertain** – are companies really reporting changes in delivery times – which they are asked to do?
  - » This index as been above 50 most of the time (the past 20+ years), formally implying a continuous increase in delivery times. However, delivery times have surely not increased almost all the time – they have rather fallen! Companies may be reporting the level of delivery times. If so, delivery times are now contracting – while the index formally reports than delivery times are increasing at a marginally slower pace

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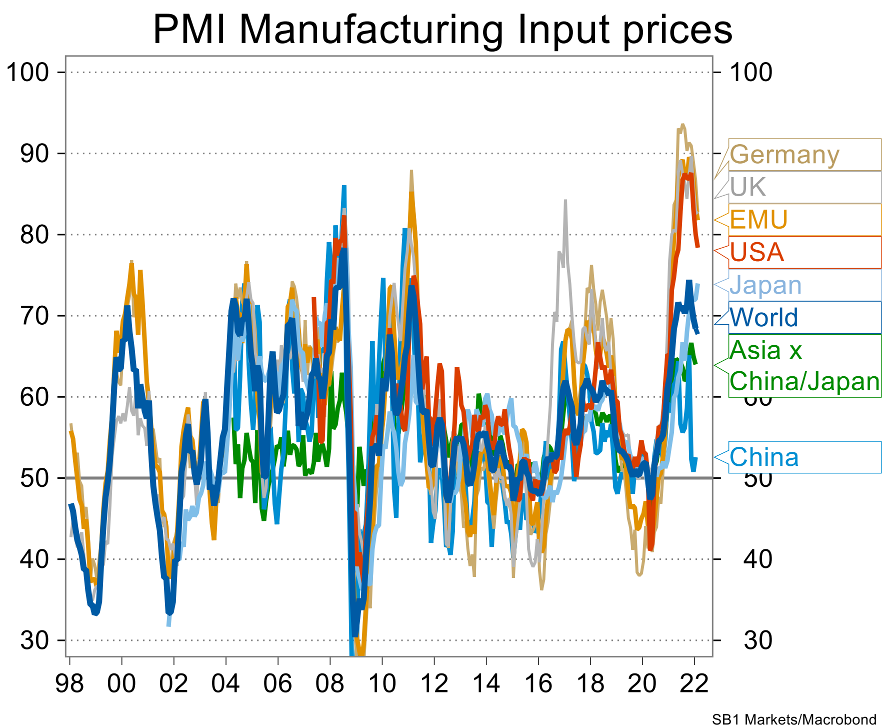
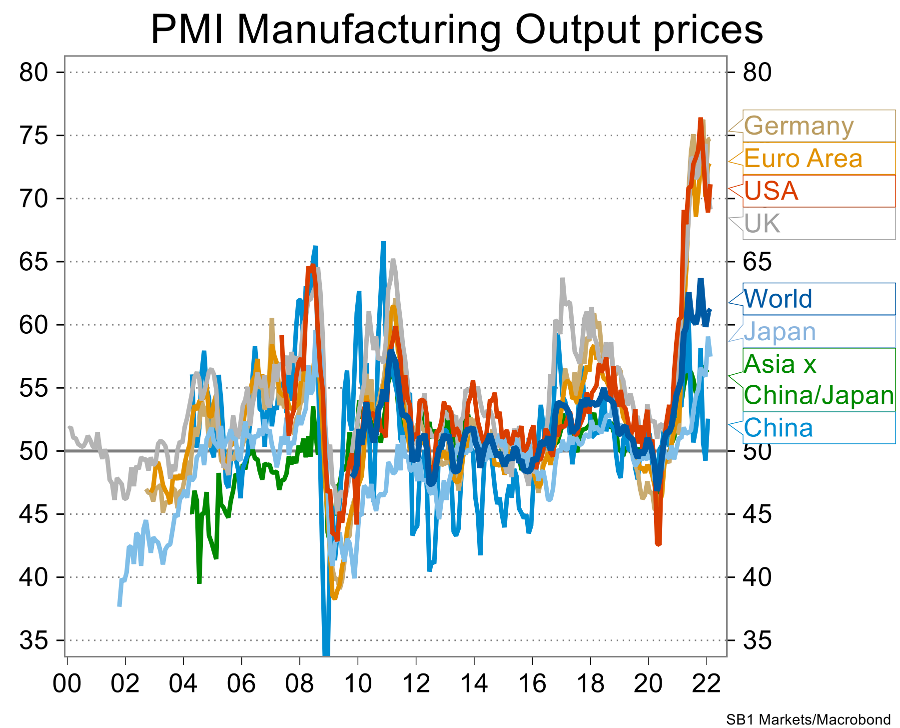
Price indices have peaked – but output prices not by much, and not further in Jan/Feb

Companies are still reporting very rapid price growth in the rich part of the world



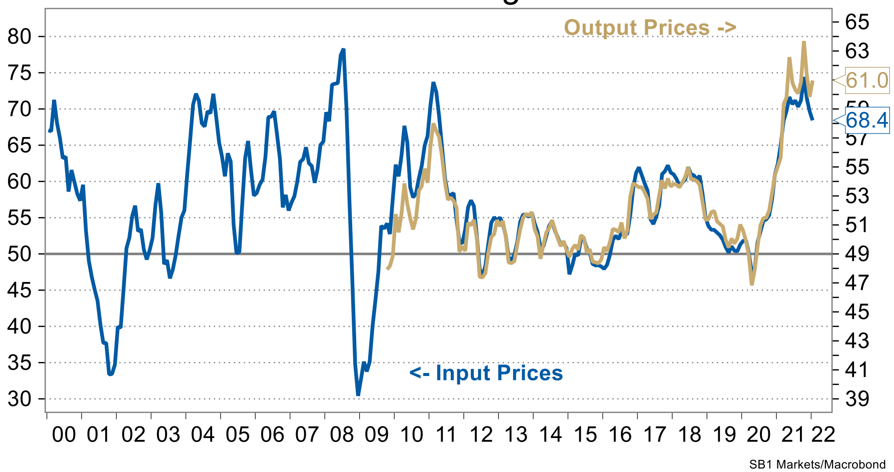


- … and inflation may not come much down, short term

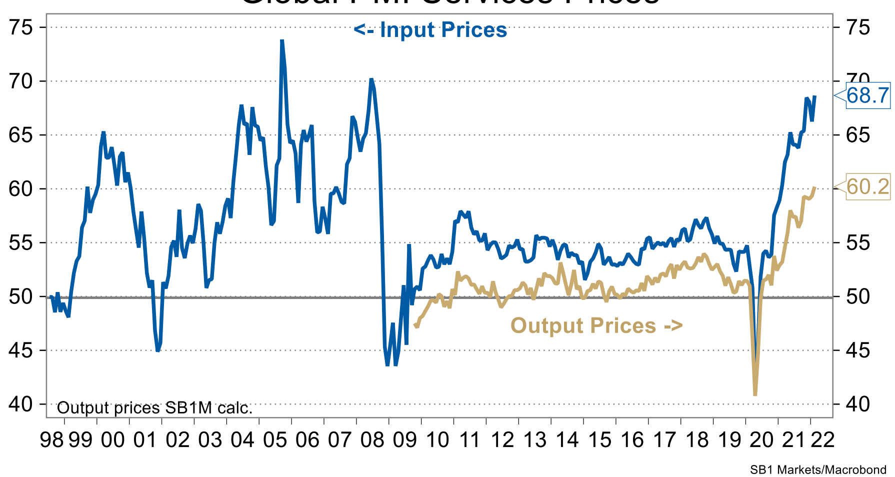
Price indices have peaked, at least in manuf. – but they remain high

However, as soon as energy & other commodity prices stop rising, inflation will retreat rapidly

Gobal Manufacturing PMI Prices

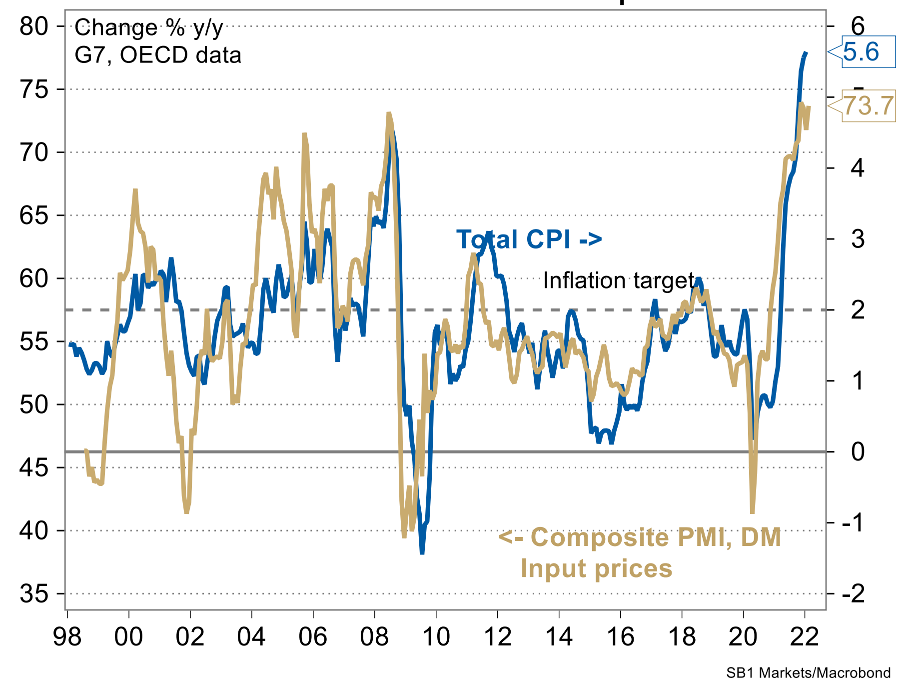


Global PMI Services Prices



The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and the US

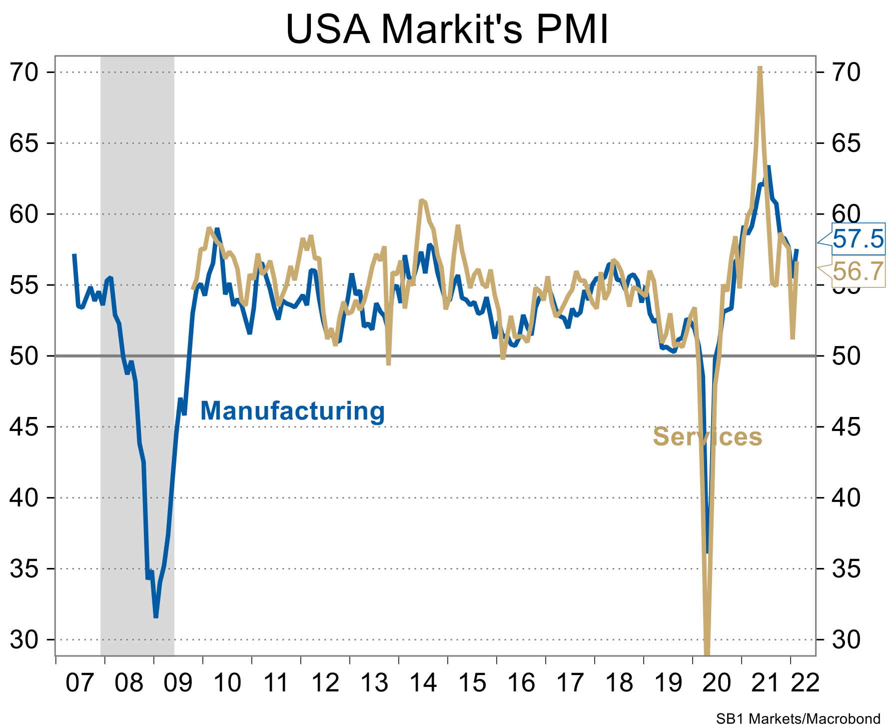
OECD Inflation vs PMI prices

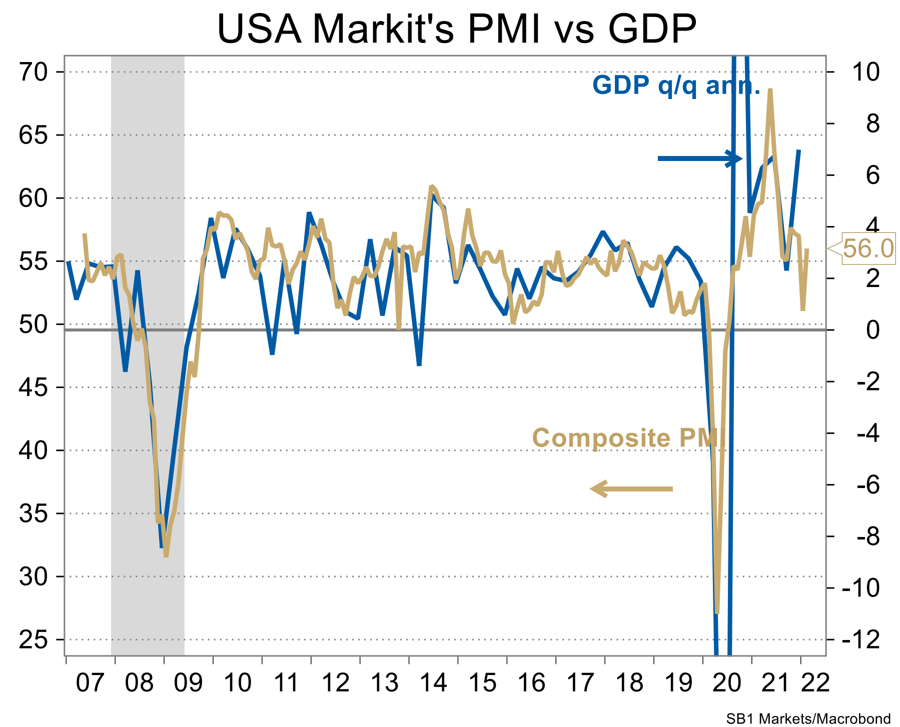


- In manufacturing, the price indices have clearly peaked
- Prices have not yet eased in the service sector, at least not output prices
- We are still much more concerned about wage inflation than the actual price inflation due to factors that most likely are transitory, like hikes in raw material prices, freight cost (which already may be yielding) or short lived margins expansion when demand is surprisingly strong

The PMIs back up to a normal level in Q4

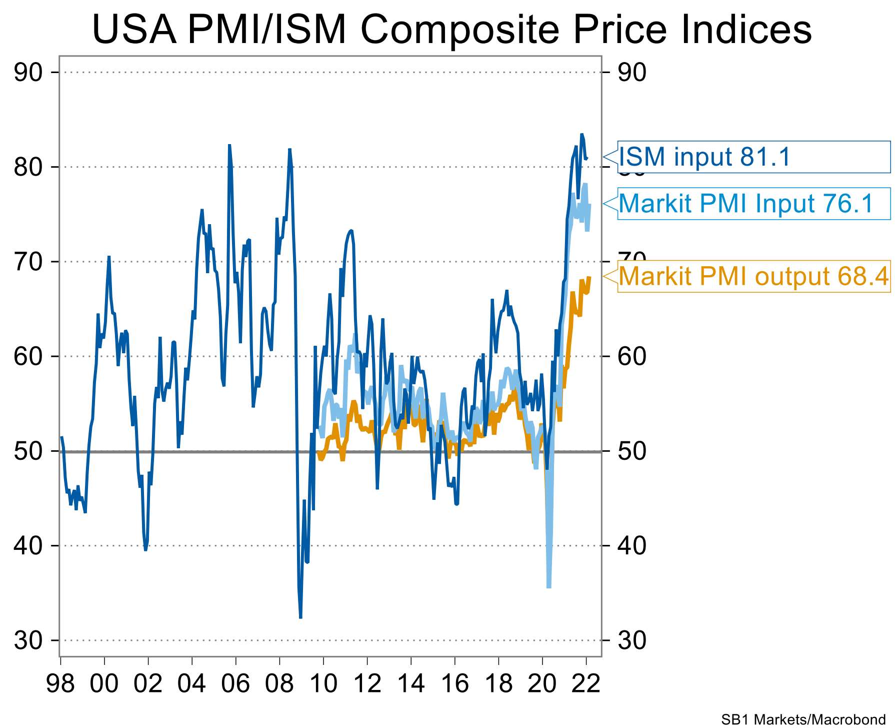
Following the unusual 5.9 p drop in the composite PMI in Jan, a 4.9 p lift in Feb, to 56, above average





- **The composite PMI** reported of the largest increase, following the 3rd largest decline ever (data from 2007) in January. The index was expected up by 1.4p, the outcome was +4.9
- **The service sector PMI** recovered most of the Jan loss, as did the manufacturing PMI. Both are well above an average level
- **The price indices** rose, both input and output prices (the composite index)
- A positive sign: the **delivery times index** fell somewhat – and it is trending down
- Companies report that **employment** rose at a brisk pace in February, especially in the service sector
- **What happened??** We suspect the Omicron variant created some challenges in January – and less so in February

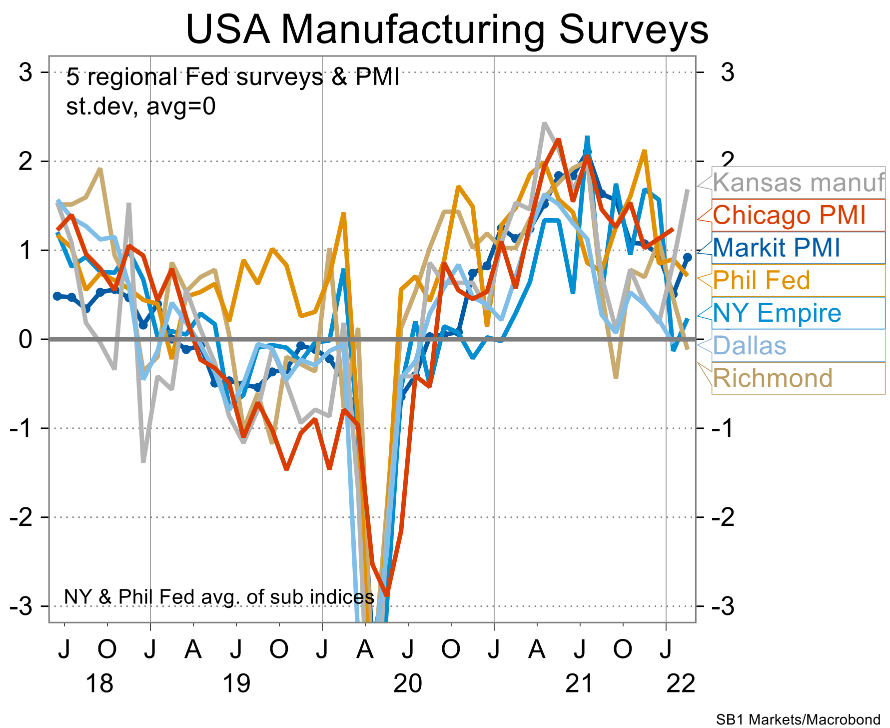
Peak price inflation? Well, not that convincing yet

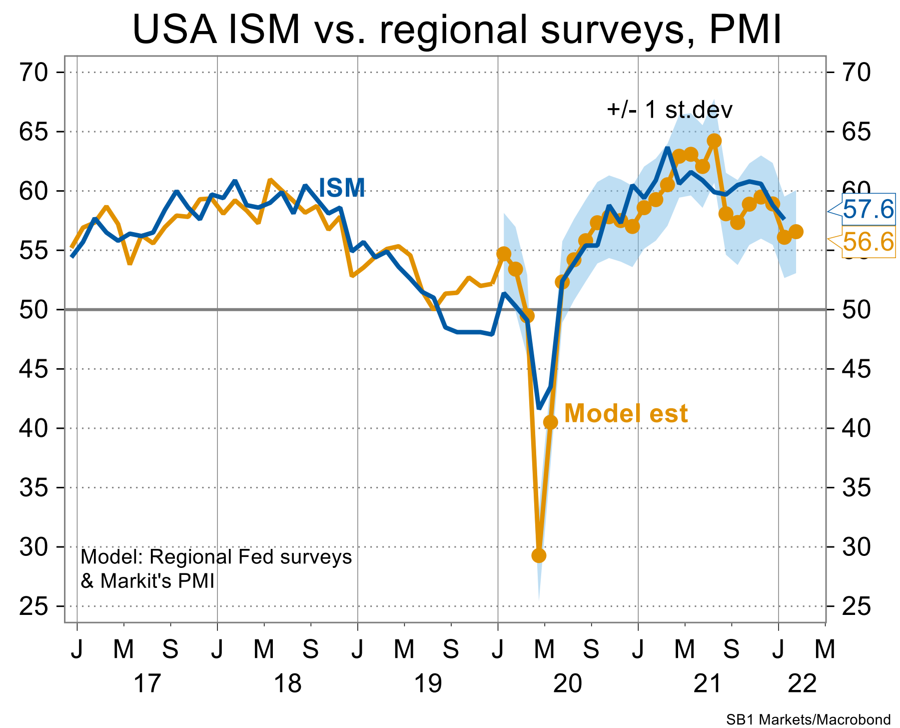


- ISM has not yet reported January data

3 out of 5 manufacturing surveys up in February, so far, 2 down

A small increase in the ISM is possible – even if the trend is down, from a very high level

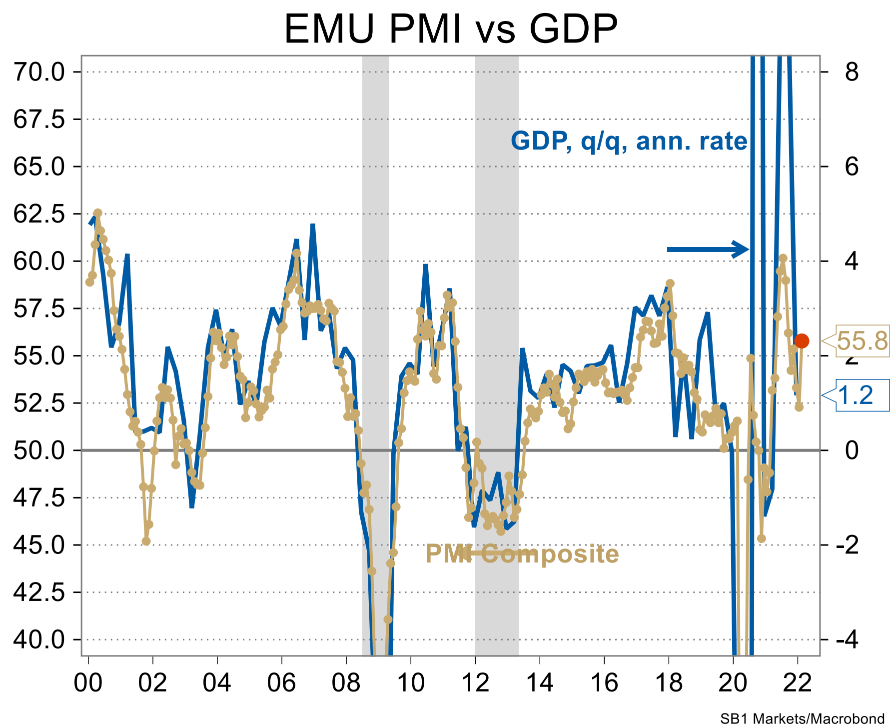


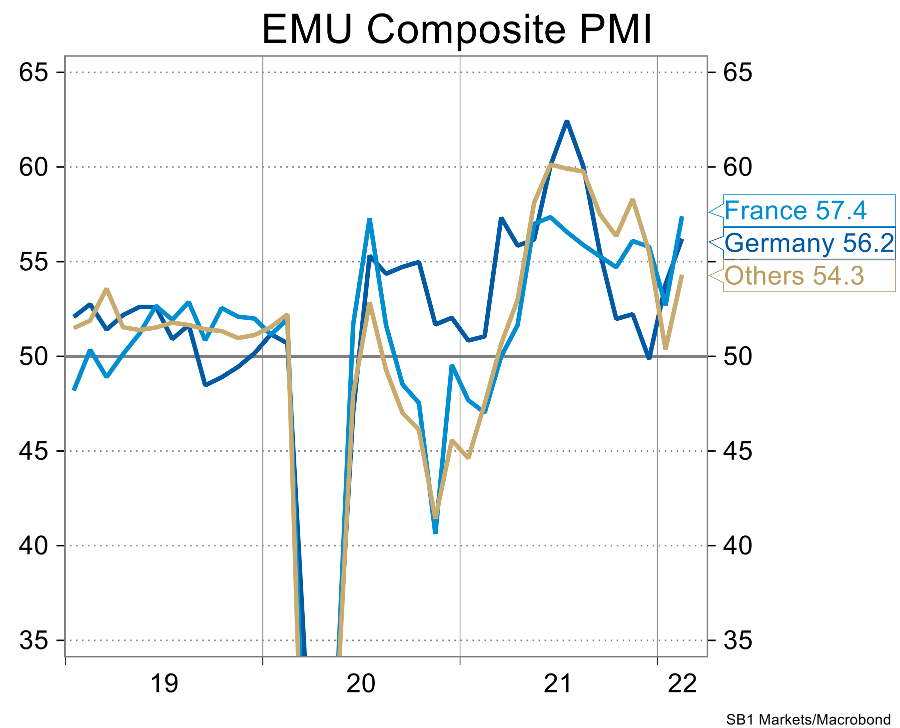


- Dallas Fed and Chicago PMI have not reported their manufacturing surveys yet

The composite PMI up 3.5 p to 55.8, the best level since September

Both France and Germany – and EMU in total – surprised sharply at the upside

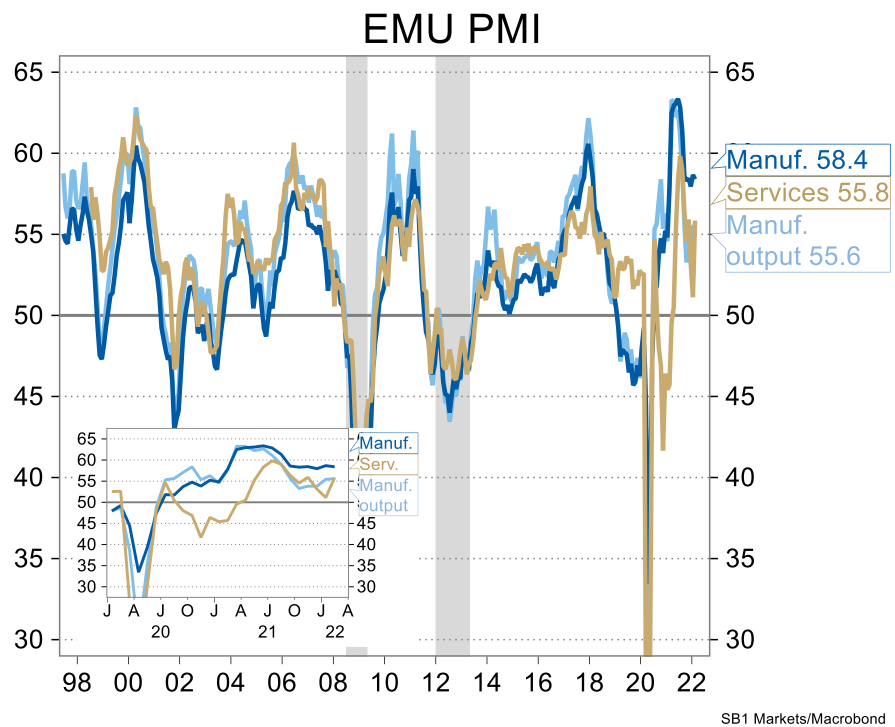


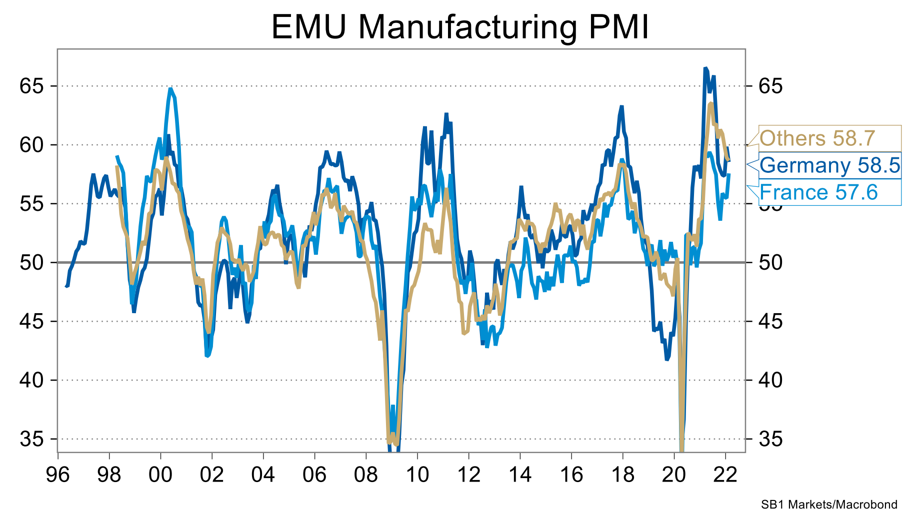


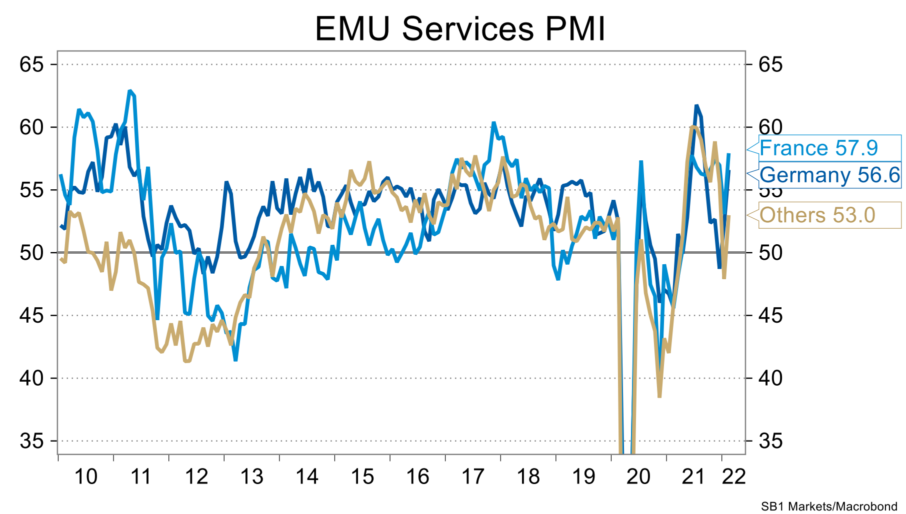
- The composite was expected up 0.6 p to 52.9 – and the outcome, +3.5 p was close to the highest estimate. The index signal a 2.5% growth rate (regrettably) above trend growth in the EMU
  - » We said it had to the fight against the Omicron, when the PMIs (except in Germany) fell off the cliff in January. The recovery in the PMIs in February more or less confirms the case
- The uptick was broad geographically

Services straight up in February, following a weak January

All countries report continued strong growth in the manufacturing sector

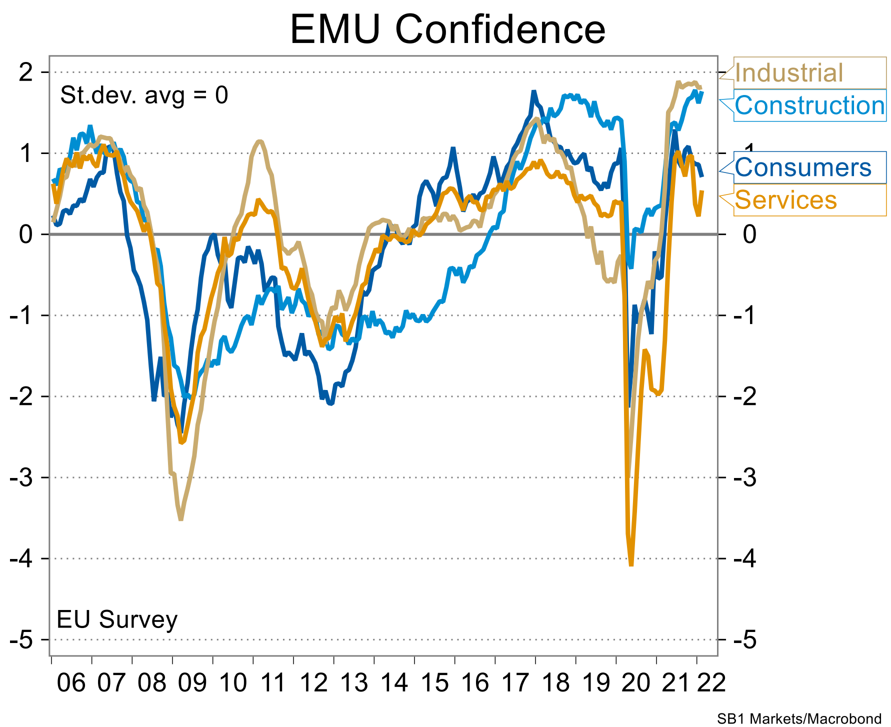


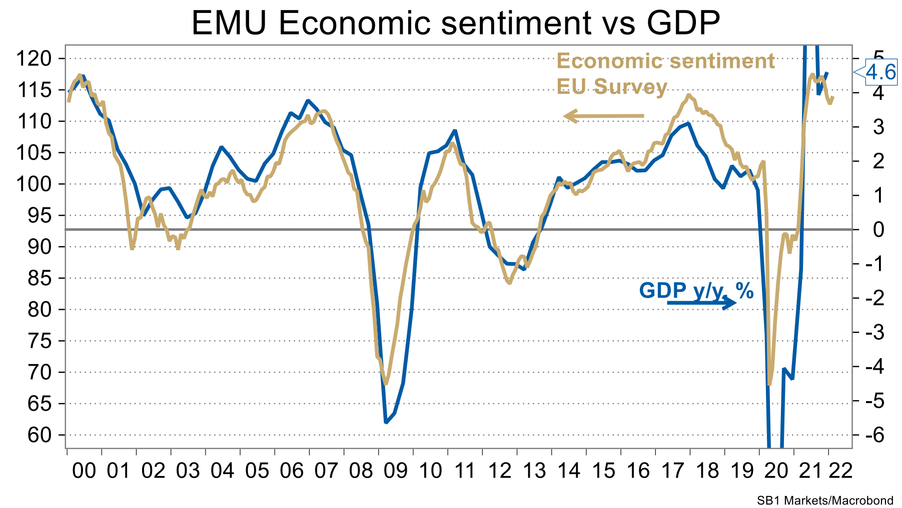


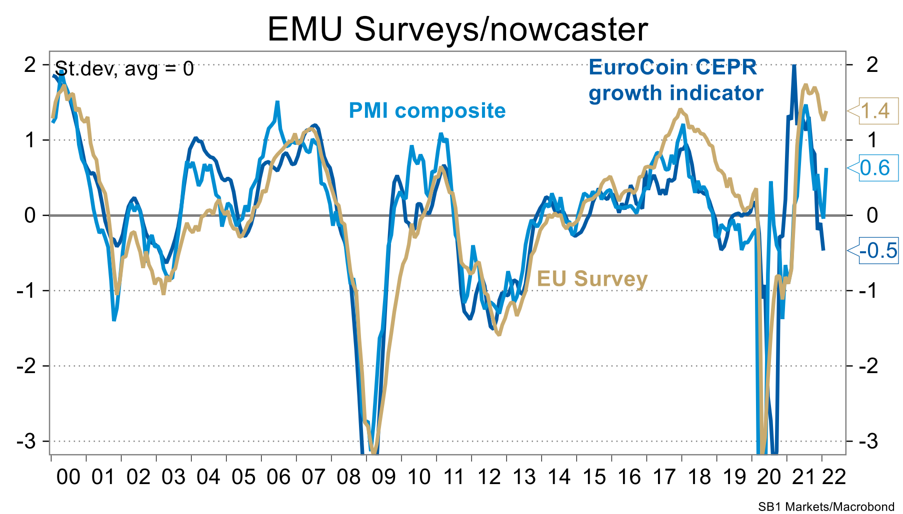


The EU survey a tick up in February, reports growth far above trend

EMU economic sentiment gained 0.1 st.dev, to 1.4 st.dev above average







- **EU's confidence survey for the Euro area** gained 1.3 p to 114.0 in February, expected up 0.4 p5. The level equals 1.3 st.dev above average, signalling a GDP growth well above average, at 3 - 4 %
  - » **All sectors** are signalling above average growth
  - » **The service sector** index recovered the Jan loss, and more than that
  - » **Industry and construction** confidence both remain clos to ATH
- The **EuroCOIN GDP nowcaster** signaled far slower growth in Januar, at -0.5 st.dev below avg zero growth is indicated

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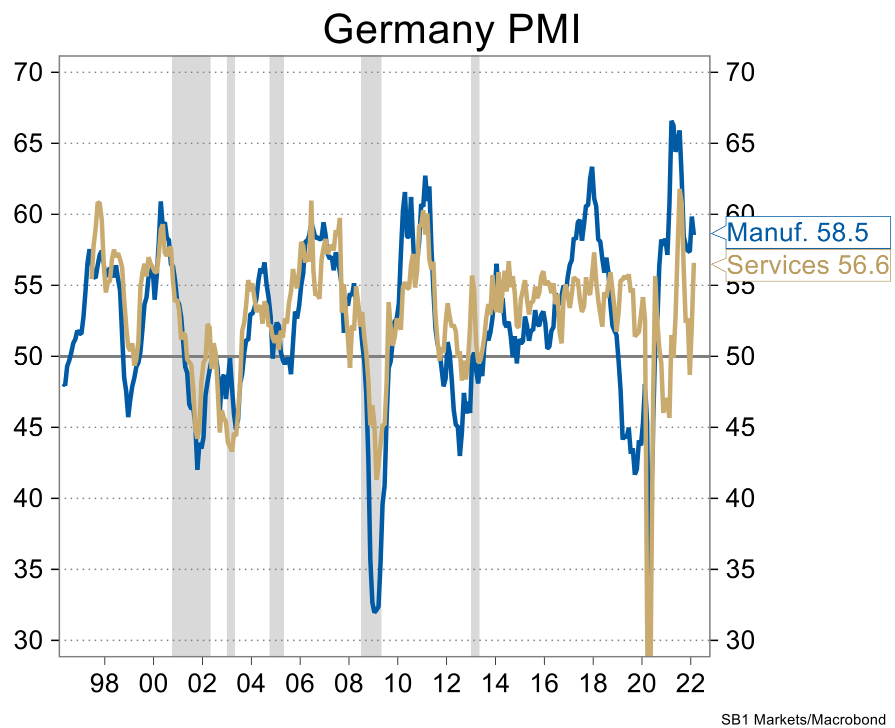
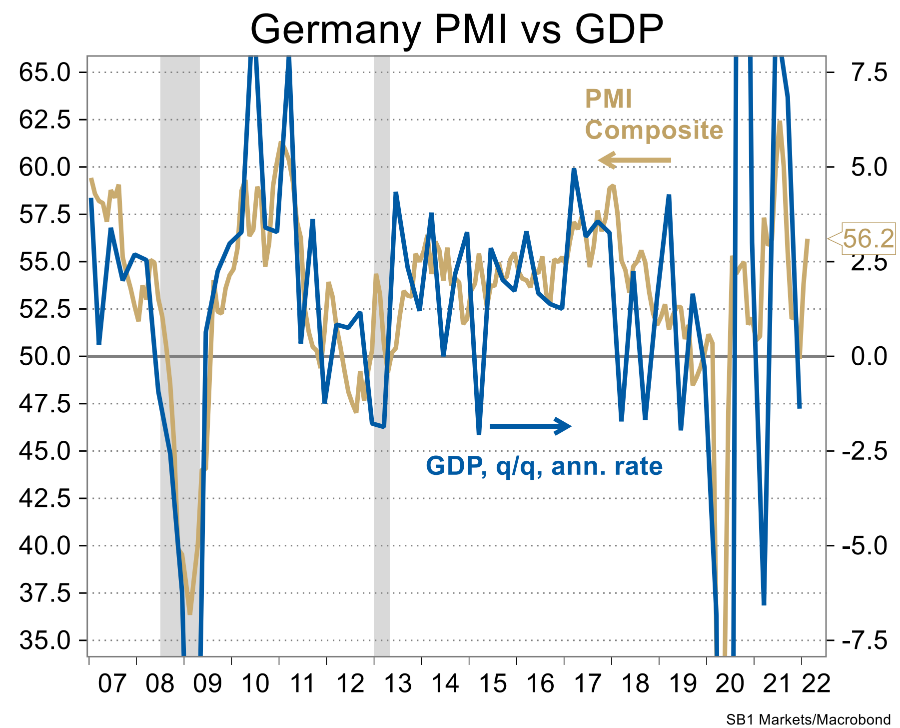
Germany: Services are reporting strong growth, manufacturing even stronger

The composite PMI + 2.4 p to 56.2 -> 3% GDP growth (from 50 & zero growth in December!)

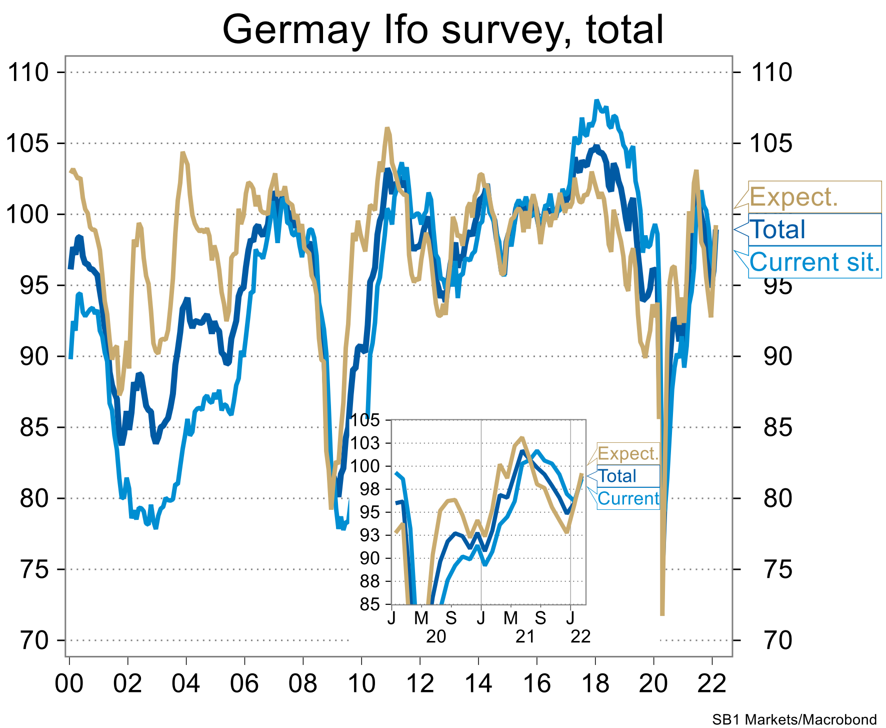




- **The composite PMI** was 1.7 p higher than expected
- **The manufacturing PMI** declined 0.3 p to 58.4, expected unch
- **The service sector PMI** added 4.4 p to 56.6, 3.5 p better than expected! This index was far better than expected in January too, following setback to below 50 in December, when Covid restrictions were implemented

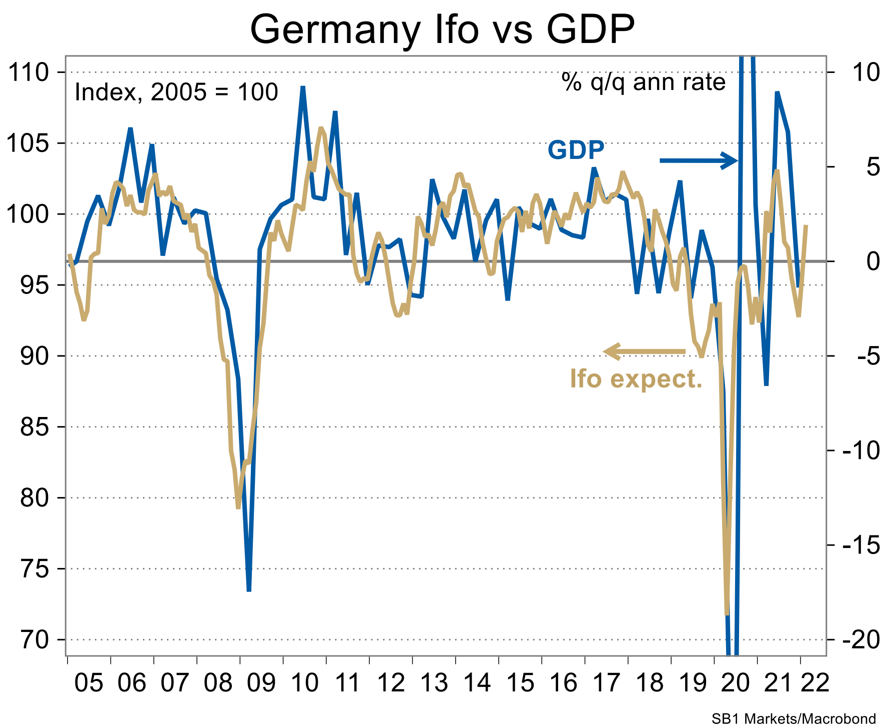
Ifo expectations further up February, and far more than expected

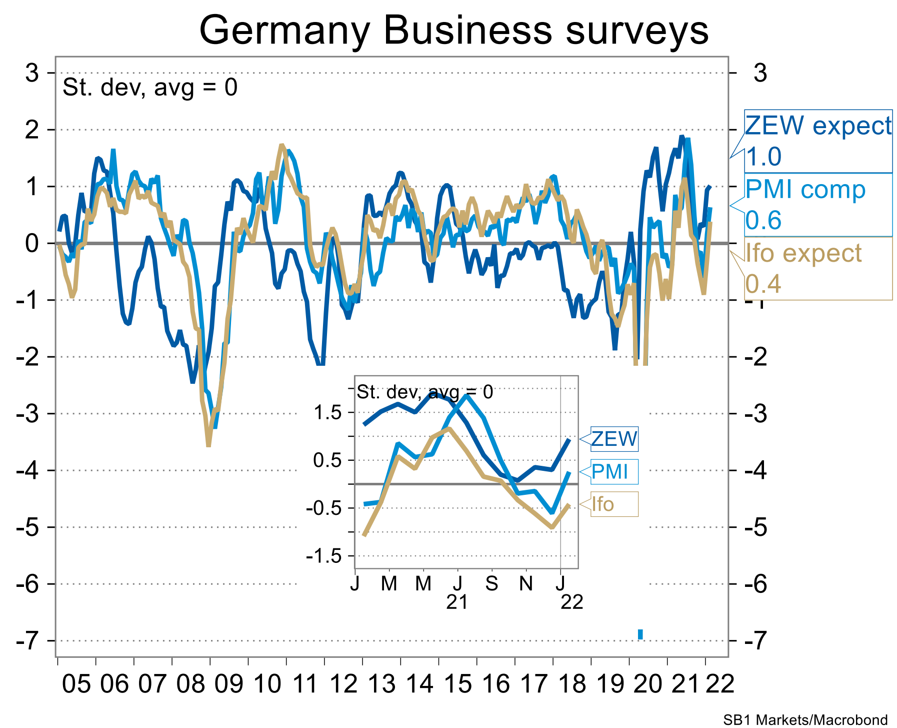
All sectors lifted their outlook in Feb; Services back to an averege lave, the others well above



- **The expectation index** rose to 99.2 in Feb from 92.8 in Jan, expected up to 96.2. The level is 0.4 st.dev above avg
- The **assessment of the current situation** climbed 2.5 p to 98.6, 2.1 p better than expected

Surveys signal growth above trend in Q1 – following the setback in Q4





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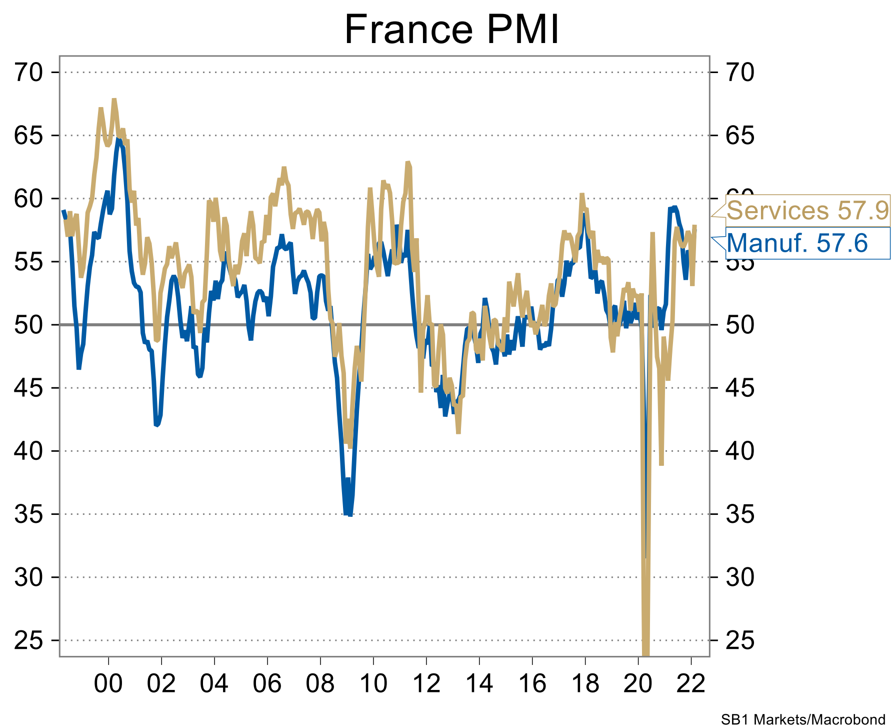
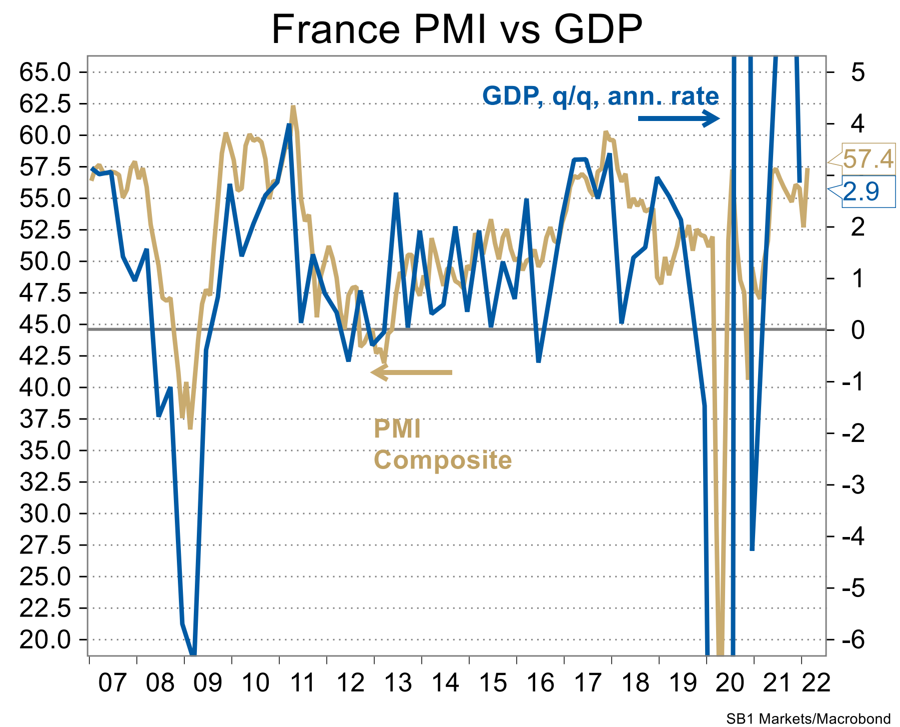
France: Services shot up to the best level in 3 years, the composite PMI too

Manufacturers are not complaining. 3% GDP growth is signalled

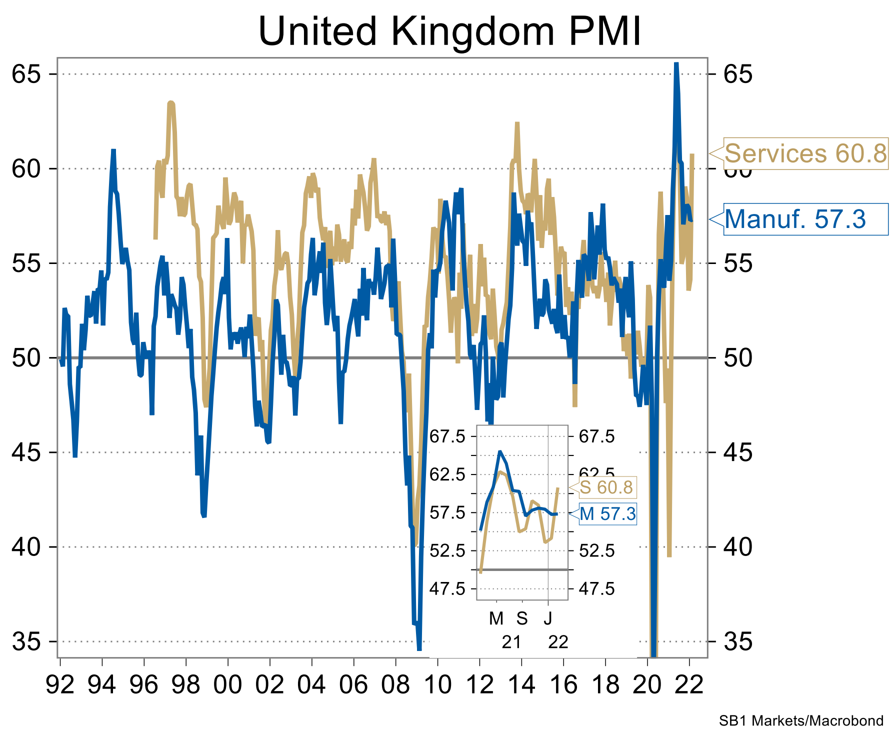




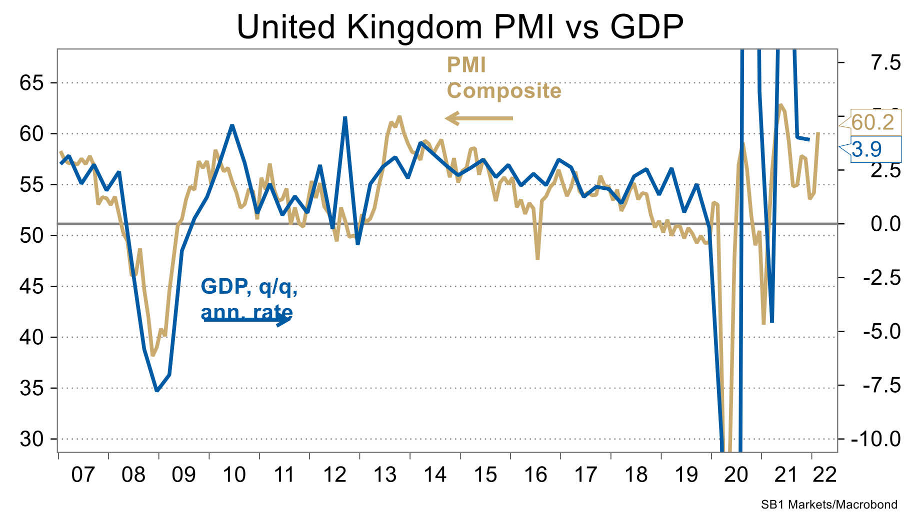
- The **composite index** more the recovered the January decline in February, the index added 4.7 p to 57.4, 4.4 p better than expected!
- The **services PMI** rose more and surprised more on the upside than the **manufacturing PMI** but even this index rose 2.1, expected unch. No doubt, the economy is gaining speed after the Omicron downturn in January

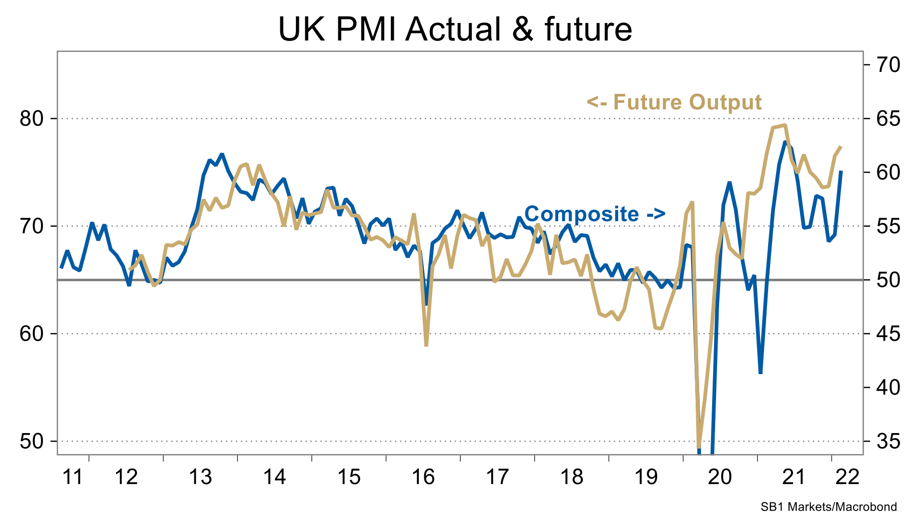
The PMIs straight up in February, services saved the day

Services up 6.7 p to 60.8, 5 pp better than expected. The composite index up to above 60 → GDP +4%



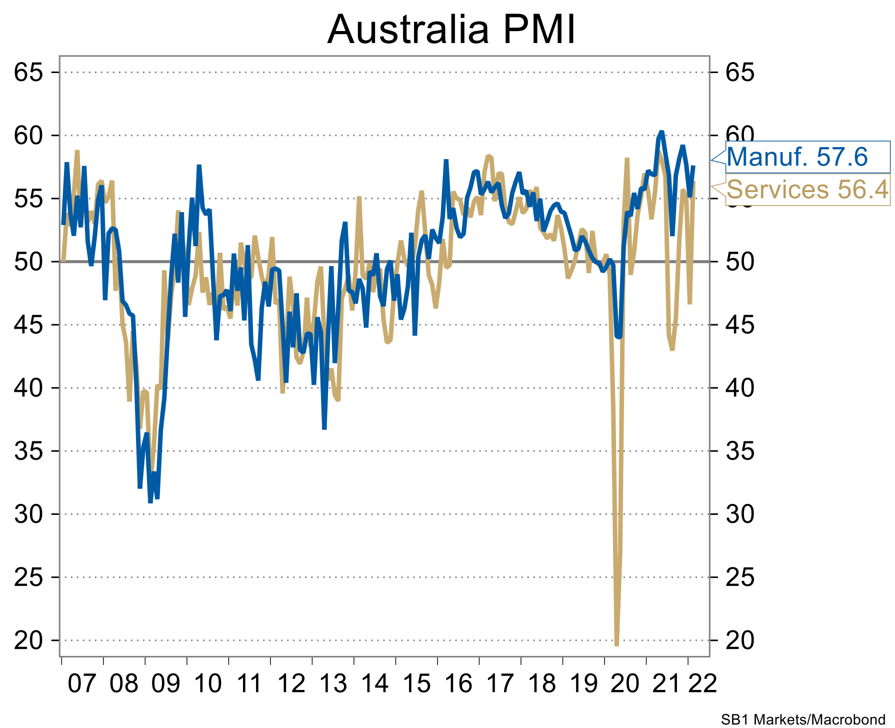
- **The manufacturing index** was unch at 57.3, a strong print
- **The service sector** index rose far more than expected – and the level is very high

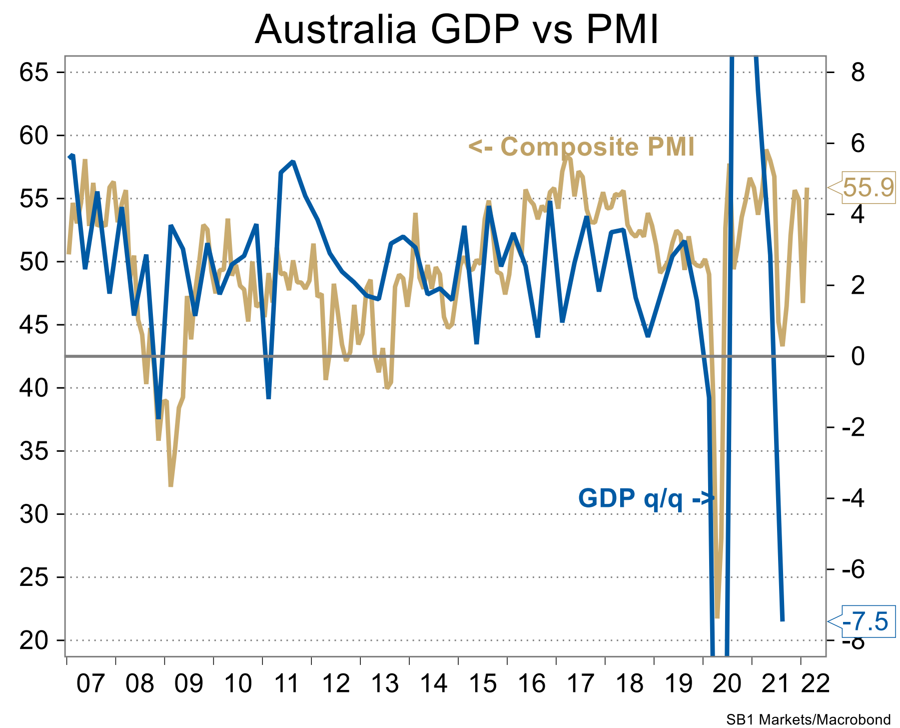




Australia reports a sharp Feb recovery – as the country is open for business again

The service sector PMI gained almost 10 p to 56.4. The composite index at 55.9 signal strong growth





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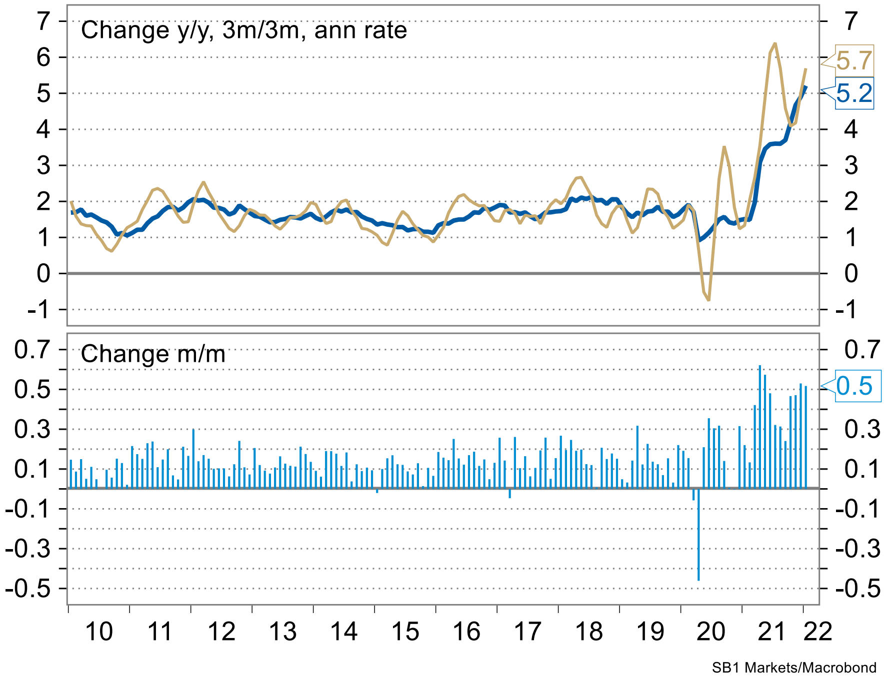
The PCE consumption deflator joined the CPI's large ~~Oct Nov~~ Dec hike

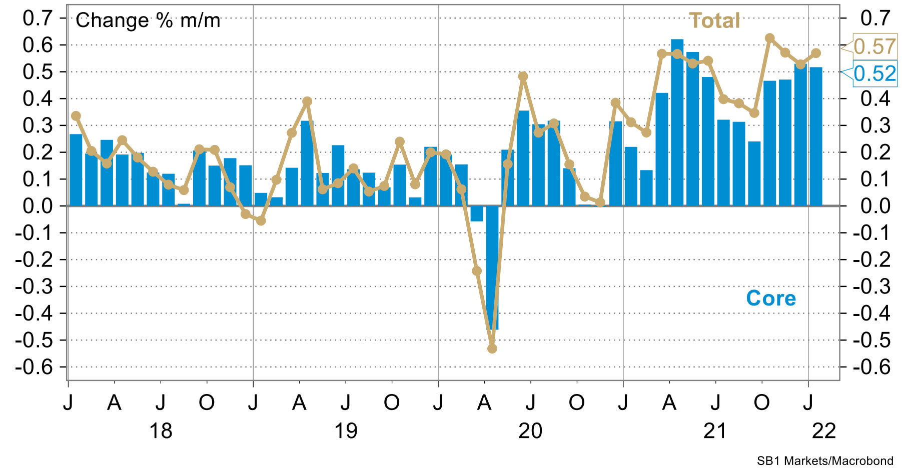
Inflation is accelerating, and broadening. A substantial part of it is quite likely transitory but not all

USA Core PCE deflator

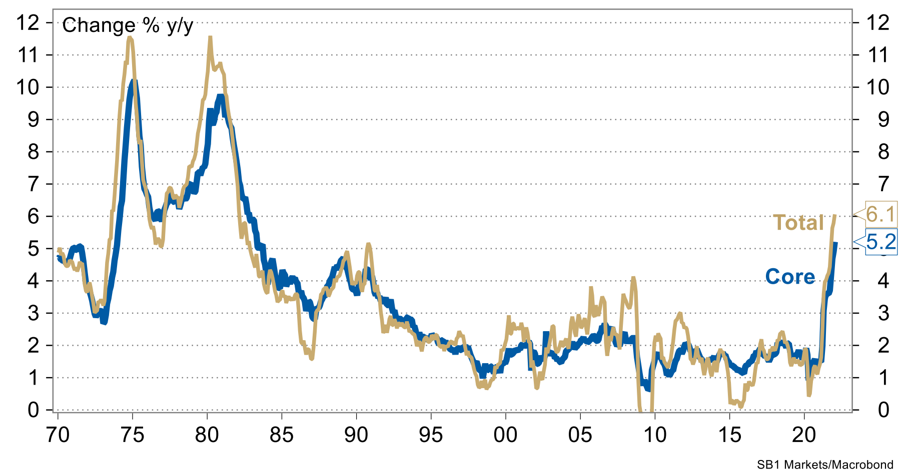


- **The total PCE deflator** rose by 0.6% in Jan, as expected, and the annual rate accelerated 0.3 pp to 6.1%, the highest since 1982
- **The core PCE** rose by 0.5% m/m, also as expected. Measured y/y, the core gained 0.3 pp to 5.2% - and has not been higher since 1983
  - » The 3m/3m rate is close to 6%
- **The price level** is far above Fed's 2% long term path target, and the FOMC members expect inflation to remain above 2%, at least they did in December. And inflation news has not been at the positive side recently?

USA PCE deflator

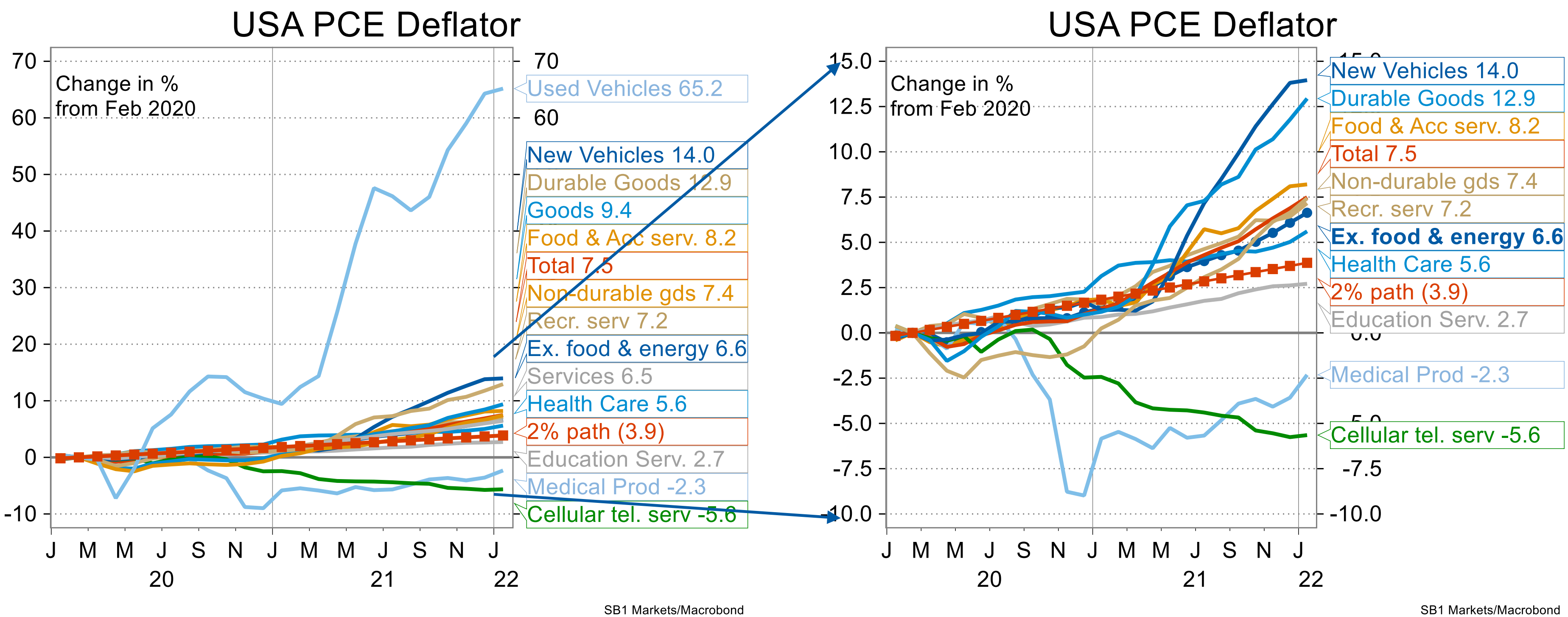


USA PCE deflator



Most prices are up more than at a 2% pace since before the pandemic

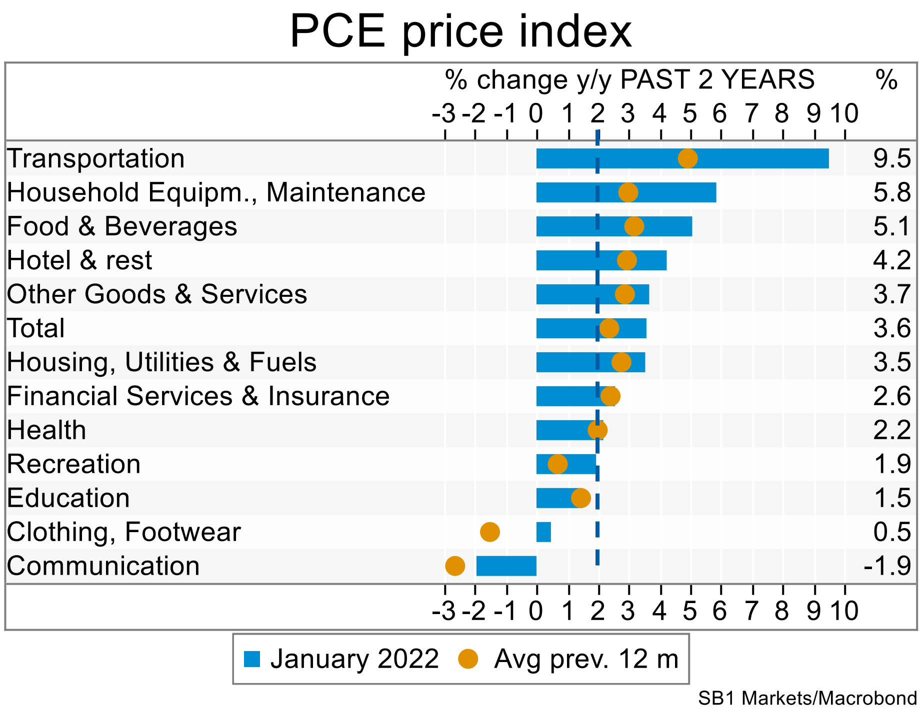
We are still waiting for used car prices to come back to earth – they are up more than 65%!!!

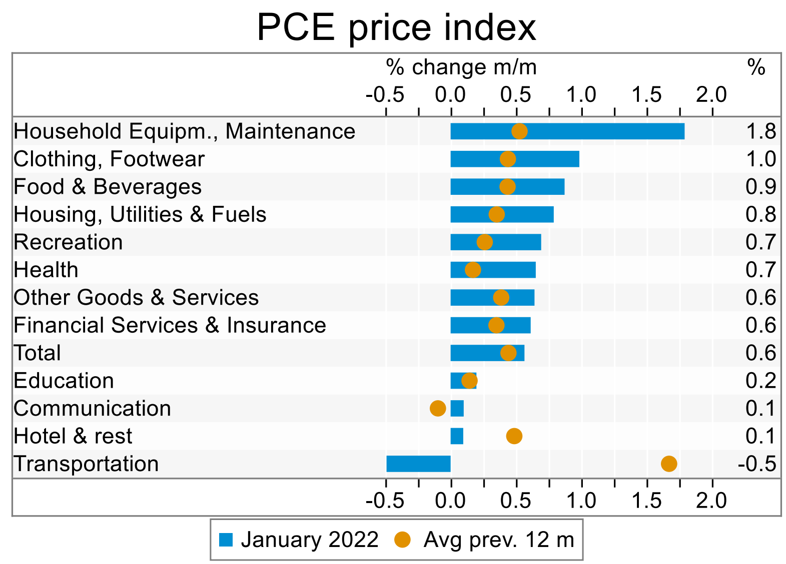


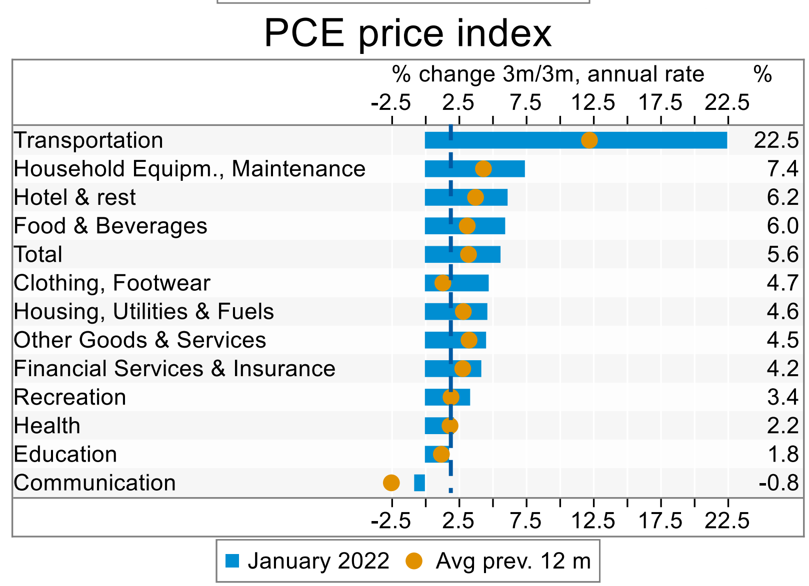
- **New car** prices are up 'just' 14% since Feb-20
- **Hotel & restaurant prices** are up 8.2% since Feb-20

PCE by main sectors: Most sectors report >2% growth past 2 years

… and most sectors are up more than 2% measured 3m/3m, the total is up 4.9%





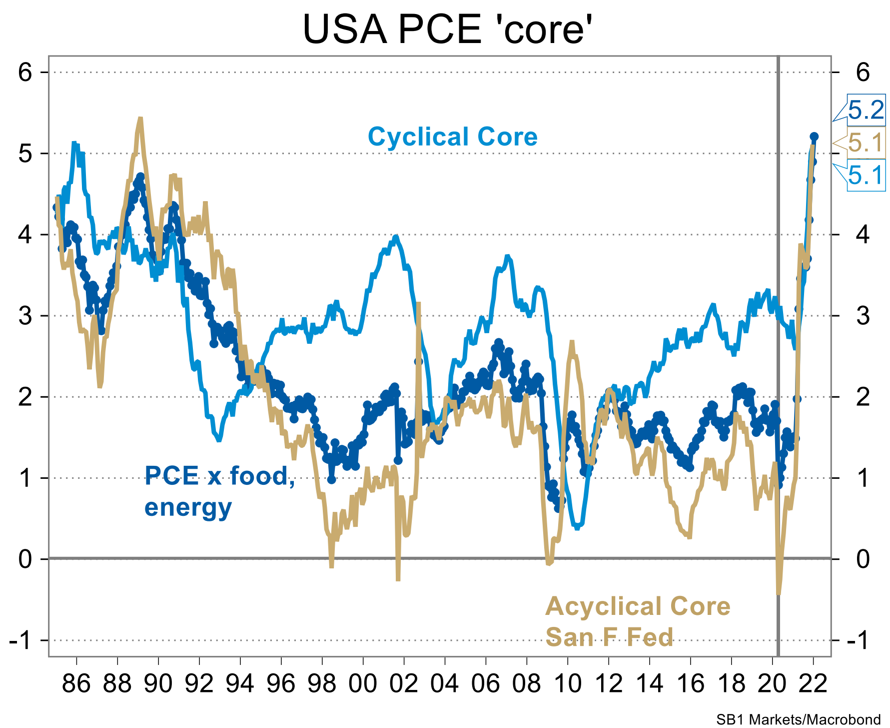


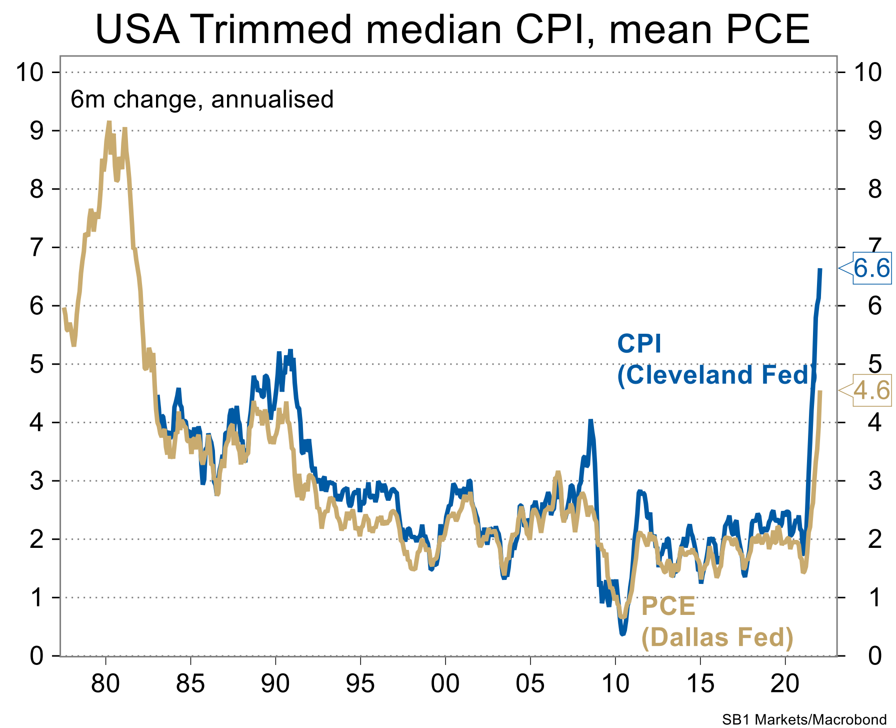
- Just education, clothing, and communication prices are up less than 2% on average over the past 2 years
- The momentum is still strong, almost sectors report accelerating price growth (the 3m/3m is above the annual rate)

SpareBank 1 MARKETS

Inflation has broadened further, even more prices are climbing faster

All ‘underlying’ measures are at levels we have not seen in decades

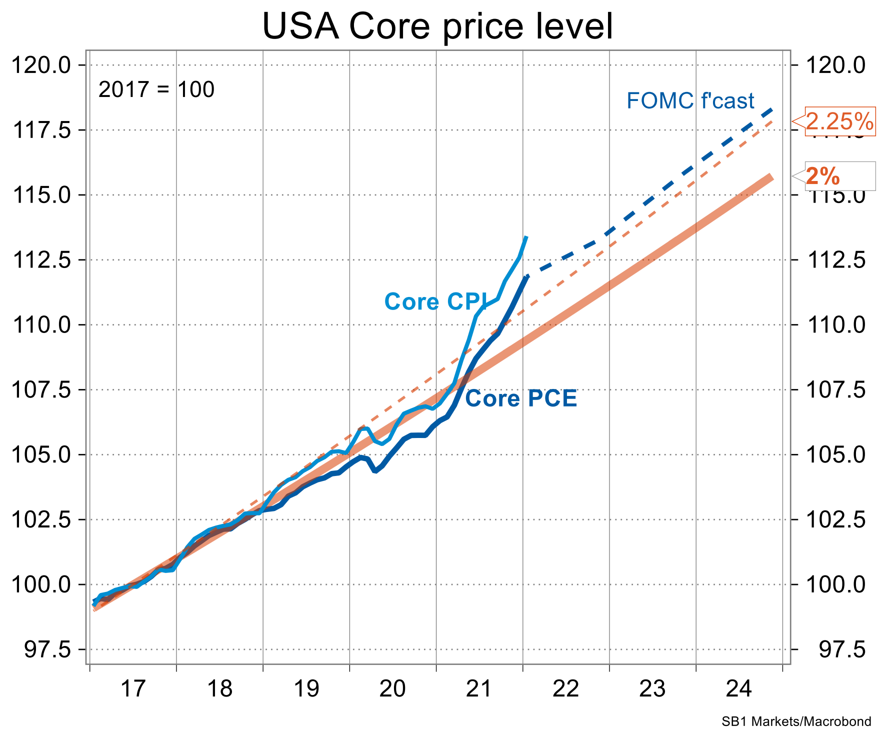


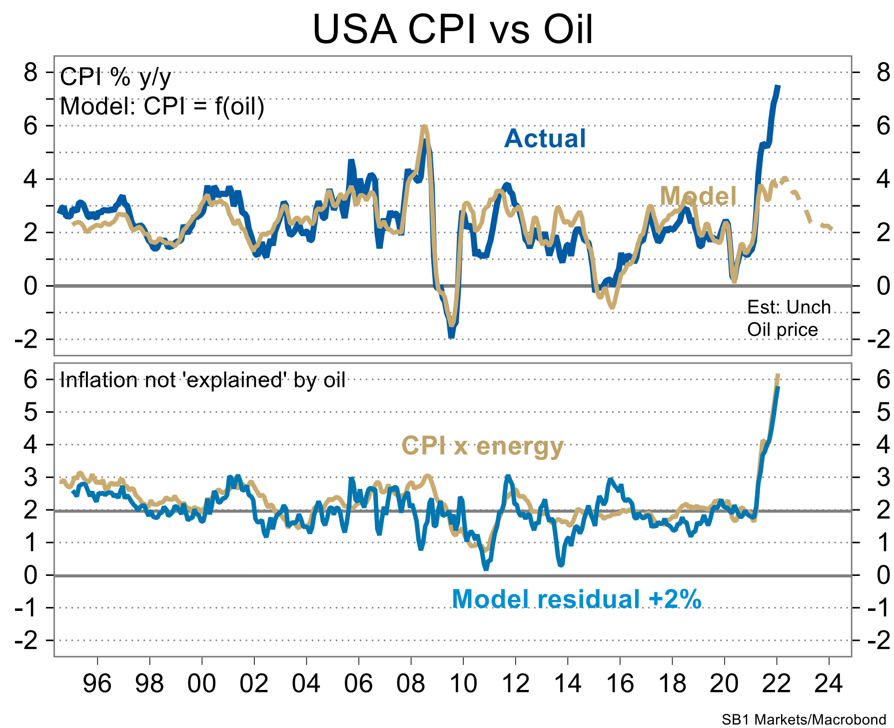


- The **trimmed PCE mean** (Dallas Fed) is up at a 4.6% pace over the past 6 months, up from 2% ahead of the pandemic (and 3.6% in December). This indicator of underlying inflation has not been growing faster since 1983
- The trimmed median CPI (Cleveland Fed) is up 6.6% over the 6 months, the highest on record, data back to 1983
- Both core cyclical and acyclical PCE prices are up more than 5% y/y
- Other measures of underlying inflation are also at the highest levels in 30 years
- At that time – 30 to 40 years ago – the Fed funds policy rate was not at zero

The Fed expects the 2% price target to slip, even if the employment target is met

… or more than that. Well, if so, it is not that difficult to figure out what too do!



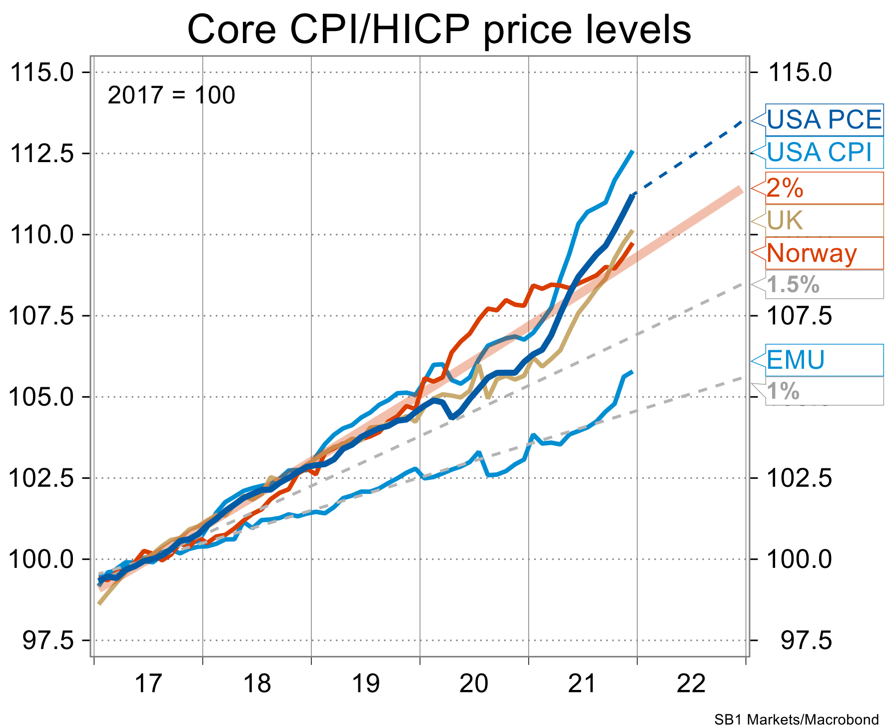


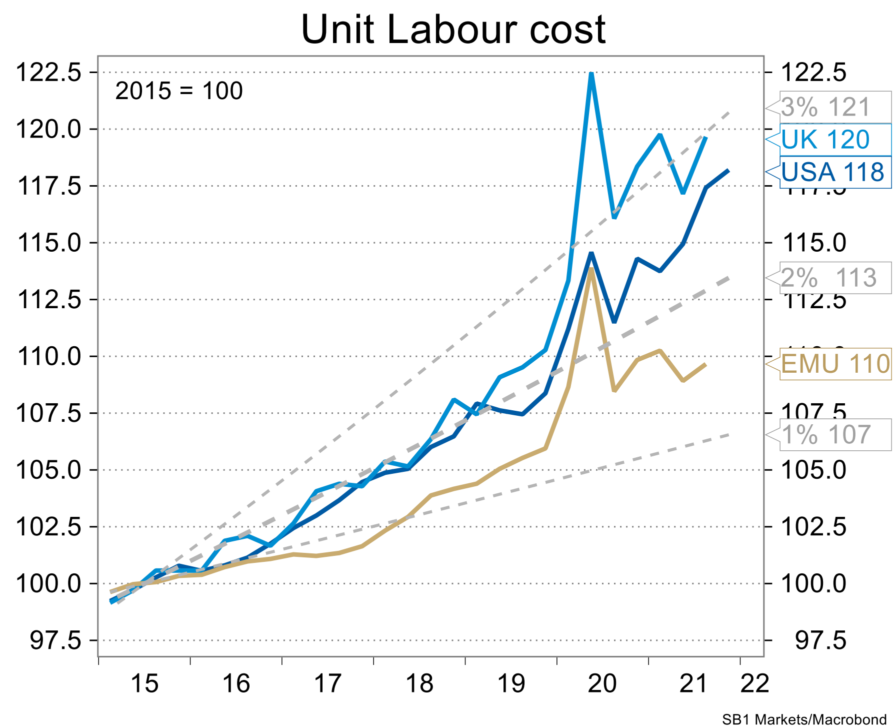
We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long, and the impacts on consumer prices are normally short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC inflation = wage inflation – productivity growth
- **A tight labour market** normally implies higher wage inflation. Now, the vacancy rate is extremely high, and all wage cost indicators signal higher wage growth. This is the real challenge for the Fed.

So far, inflation is mainly a US problem (excluding the common energy factor)

However, UK is also reporting high core inflat., unit labour cost inflation. An prices are up in EMU too

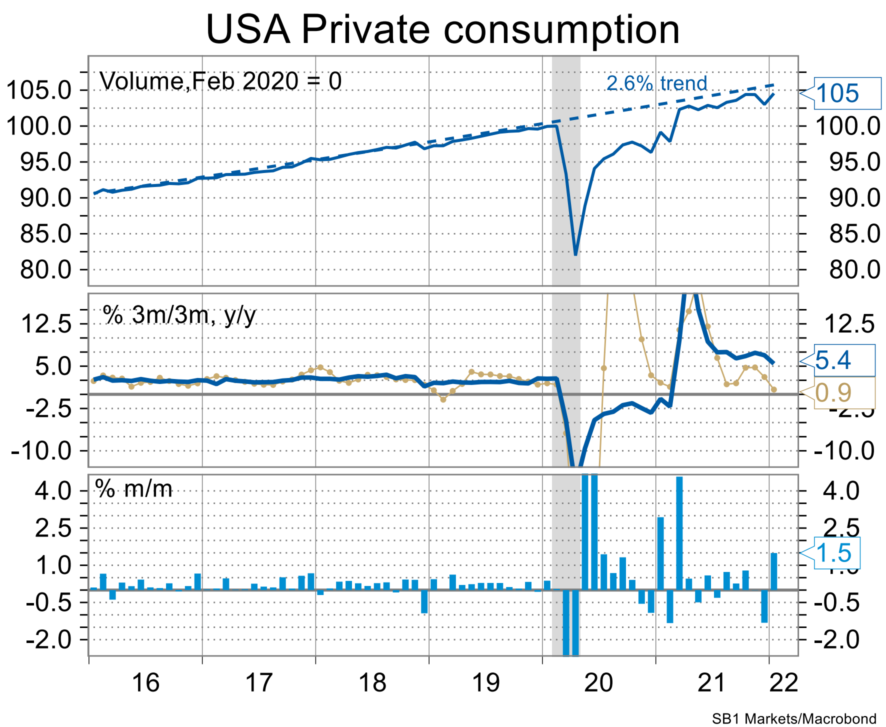


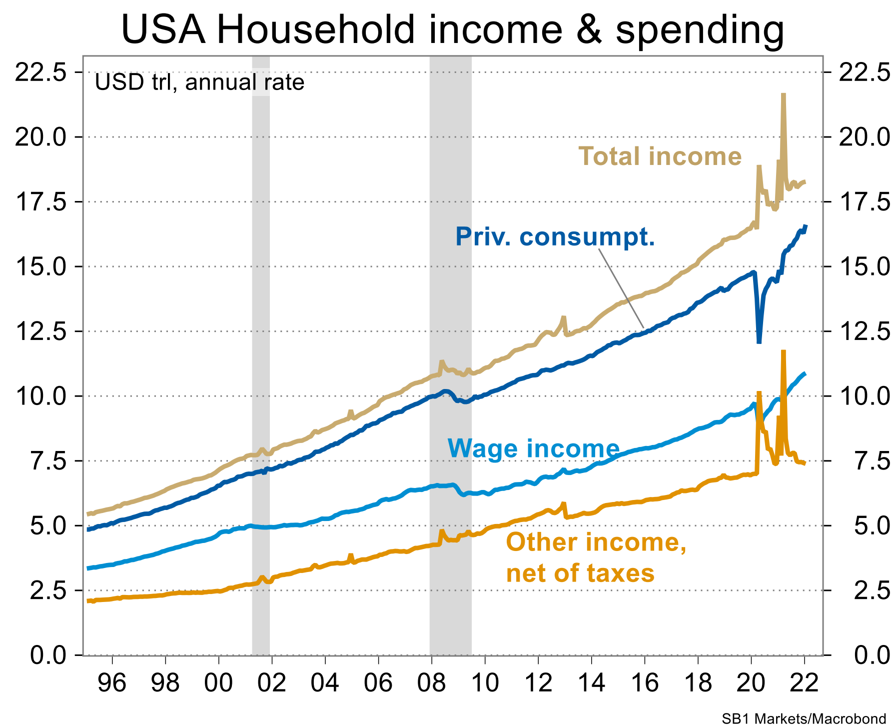


- UK may now be leaving the 2% inflation growth path
- The EMU price level is still hoovering around a 1% path but prices rose sharply in November
- The core Norwegian CPI is among the best behaved, now close to the 2% path, after being far above in 2020, when the NOK fell sharply

Real consumption down 1% in December, goods down 3% - broad based

Real incomes fell by 0.2% - and the savings rate added 0.7 p to 7.9%, in line with the pre-p level

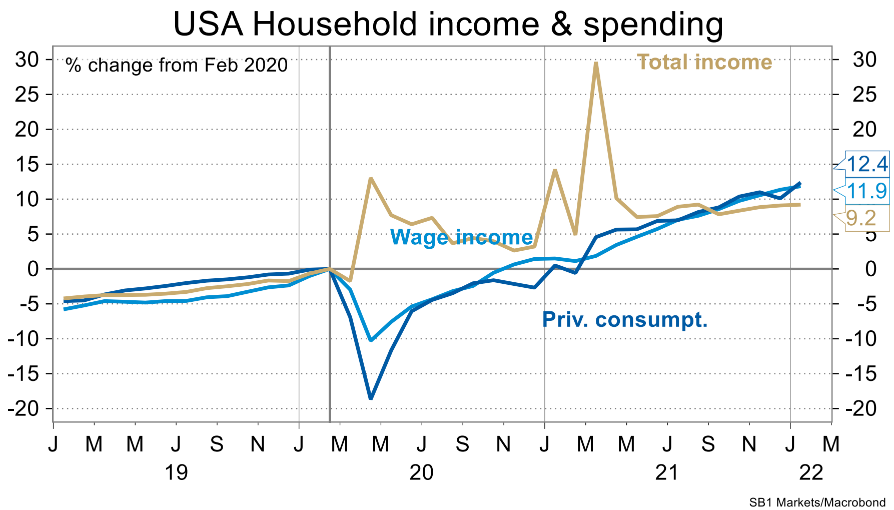


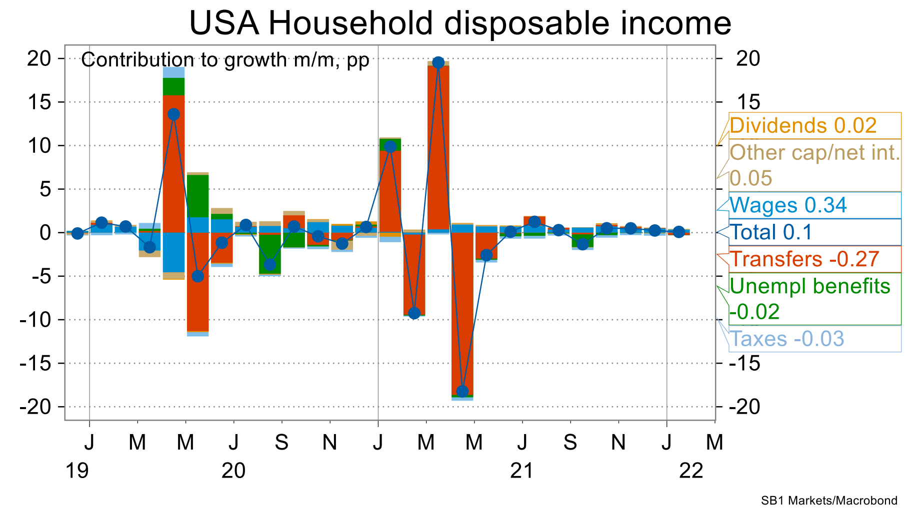


- **Private consumption** gained 1.5% Jan, expected up 1.2%. The setback Dec was larger than first assumed, -1.3% vs. -1.0%. In nominal terms, spending roose by 2.1%, expected 1.6%. Thus, the Dec setback was reversed in January – even if services no doubt were kept down due to the Omicron variant. Consumption is up 5% vs. Feb-20; Goods are 17% up, service are still down 1%. No doubt, goods consumption slow, services will accelerate the coming months
- **Real personal disposable income fell by 0.5%** in Jan, as nominal incomes grew 0.1% (expected -0.2%), and prices rose 0.6%. Wage revenues contributed the most at the upside, less transfers at the downside. Underlying wage income growth is still strong – and nominal wage incomes are still well above the pre-pandemic trend path
- **The savings rate** fell by 1.5 pp to 6.4%, to below the pre-pandemic level. However, households have saved an extra amount equalling 13% of one year's disposable income during the pandemic and has ample capacity to keep consumption growth above income growth – in average, that is

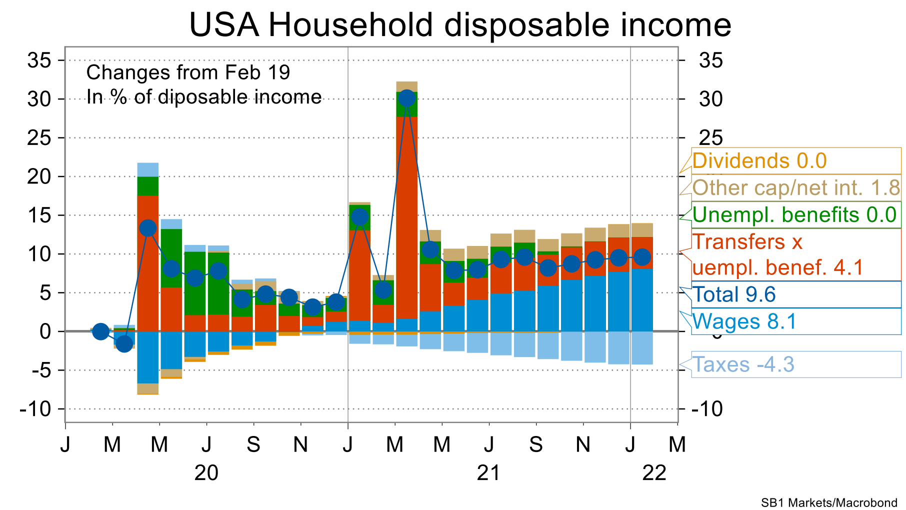
Income growth is not impressive anymore, and was just at 0.1% in January

Wage revenues are climbing rapidly. Transfers ex. unemployment benefits are back on trend



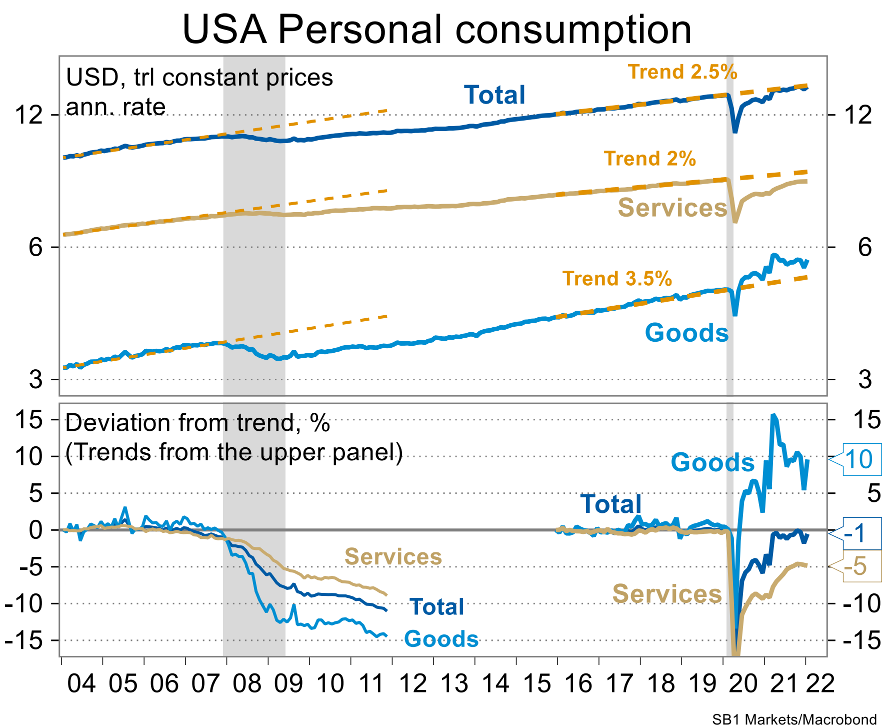


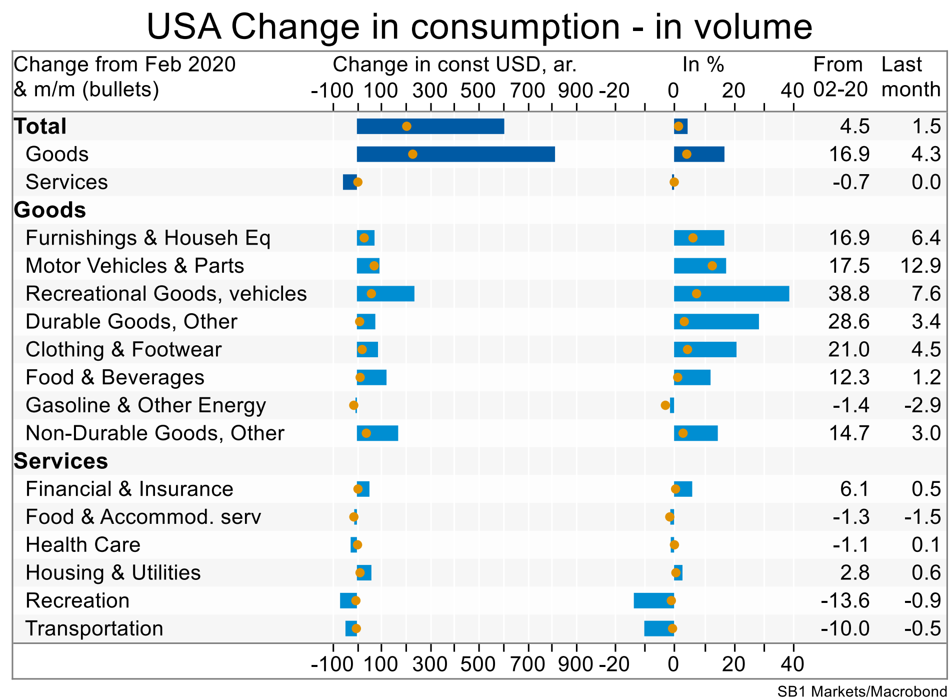
- **Total income has** flattened since the spring as ordinary public transfers and unemployment benefits have gradually normalised
- **Total wage income** is growing rapidly and are <u>above</u> the pre-pandemic growth path at 4.25%, even if employment & hours worked remain well below the pre-pandemic level. The reason is of course the sharp increase in <u>wage inflation</u>



Goods consumption recovered neatly in Jan, services retreated, due to Omicron

Services are still 5% below the pre-pandemic trend, goods are 10% above!

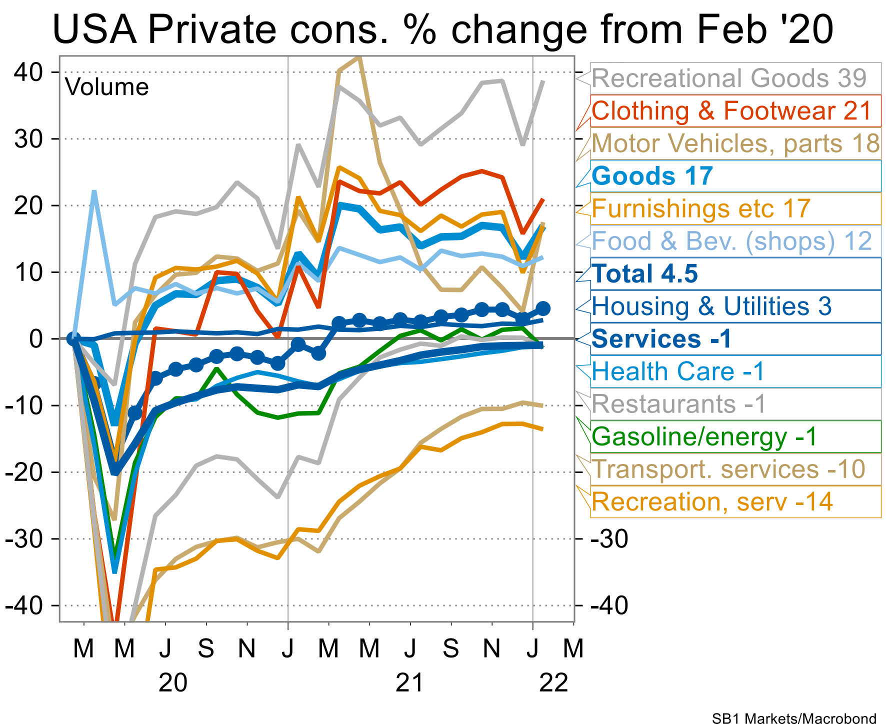




- Consumption of goods rose 4.3% m/m in January, back to the same level as in November. However, the trend is flattish, at best, and clearly down vs the pre-pandemic trend, but still far above. A substantial downside risk
- Services are recovering, but not further in January, very likely due to Omicron restrictions/changes in behaviour due to virus. The level is still 0.7% below Feb-20, and spending is 5% below the growth trend ahead of the pandemic
- Demand for durable goods are way above sustainable levels, we assume
- Spot the differences between the Financial Crisis downturn and the pandemic 'downturn'

There are some larger aggregating differentials than usual in the PCE accounts, and the sums do not add up to the total

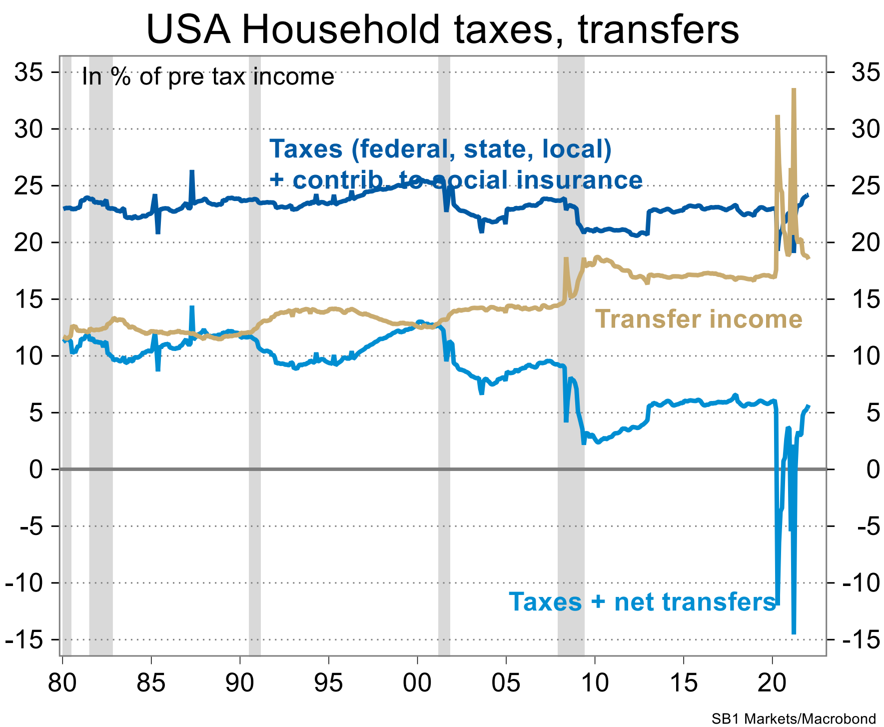
A broad uptick in goods, weakness in services

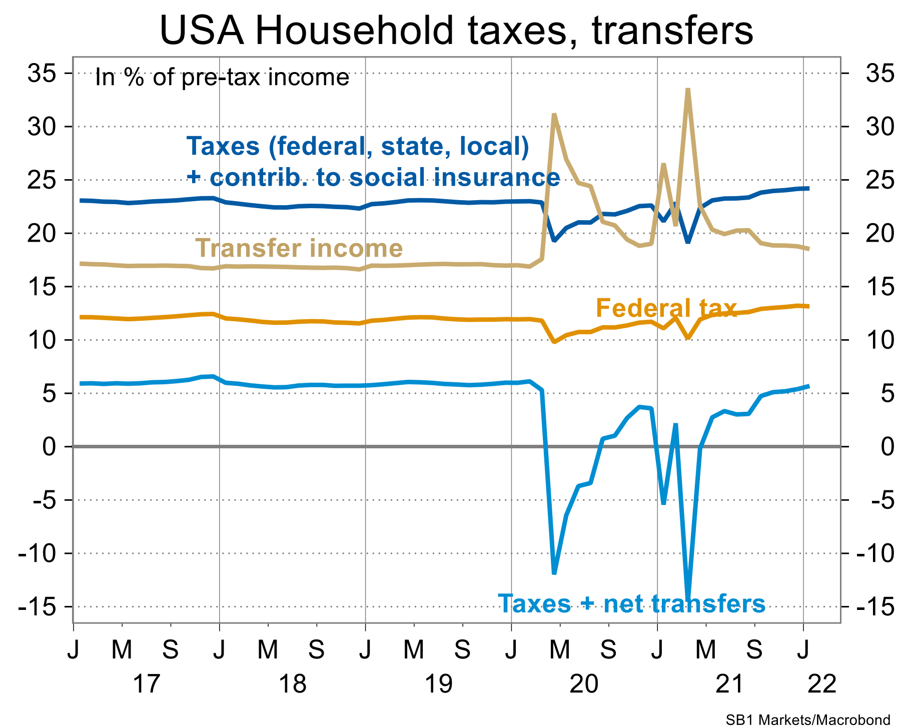


- **Consumption of goods** recovered the broad Dec loss, furnishing the most
- **Consumption of services** flattened in Dec. Restaurants, recreation & travel reported lower sales in January. However the trend is upwards, and no doubt services grew in February (the PMI shot up). The upside is substantial the coming months/quarters as demand is way below pre-pandemic trends. Some habits may have changed but probably not by that much vs. most services
- **Total consumption** is up 4.5% vs. Feb-20. Since last March, growth in spending has been muted, but consumption is still trending up – supporting GDP growth in Q4

Towards more normal times – but transfers are still above par

Net taxes close to 6% of pre-tax income, almost at the pre-p level – which though was too low

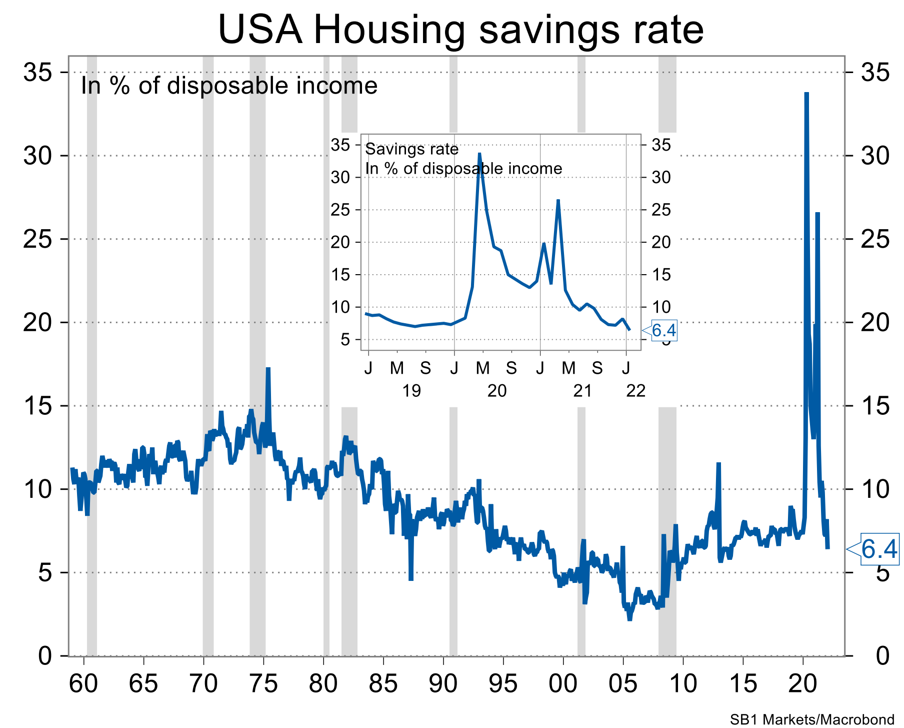


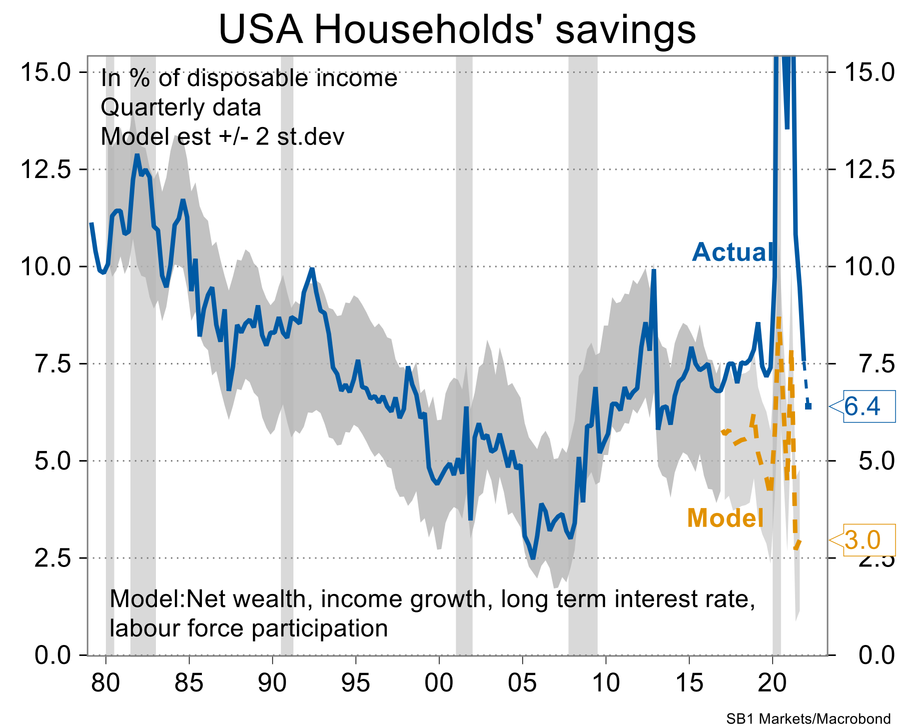


- The 'normal' net tax rate (taxes-transfers) implied a substantial government deficit – <u>which was not sustainable</u>
  - » Before year 2000, the net payment to the federal government equalled 10% - 12% of pre-tax income
    …. and somewhat below 10% until the Financial crisis. Since 2012, the net tax rate has been some 6% of GDP, and now at 5%
  - » Taxes are back to the pre-pandemic – or even a tad above – while transfers are

The savings rate down 1.5 to 6.4%, to below the pre-pandemic level

Will the savings rate stabilise at today's level? If so, income growth will decide consumption growth

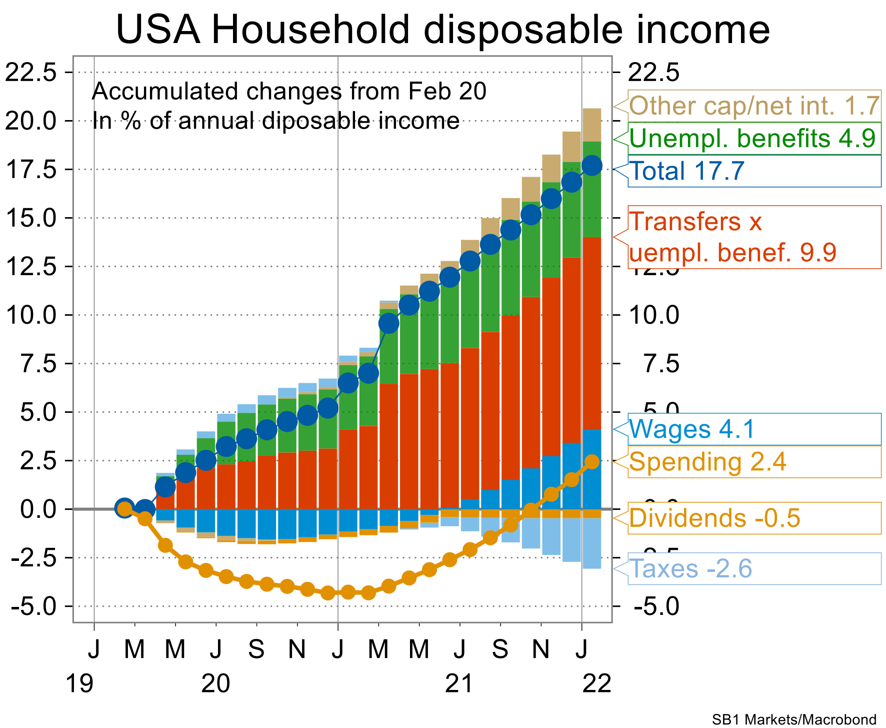


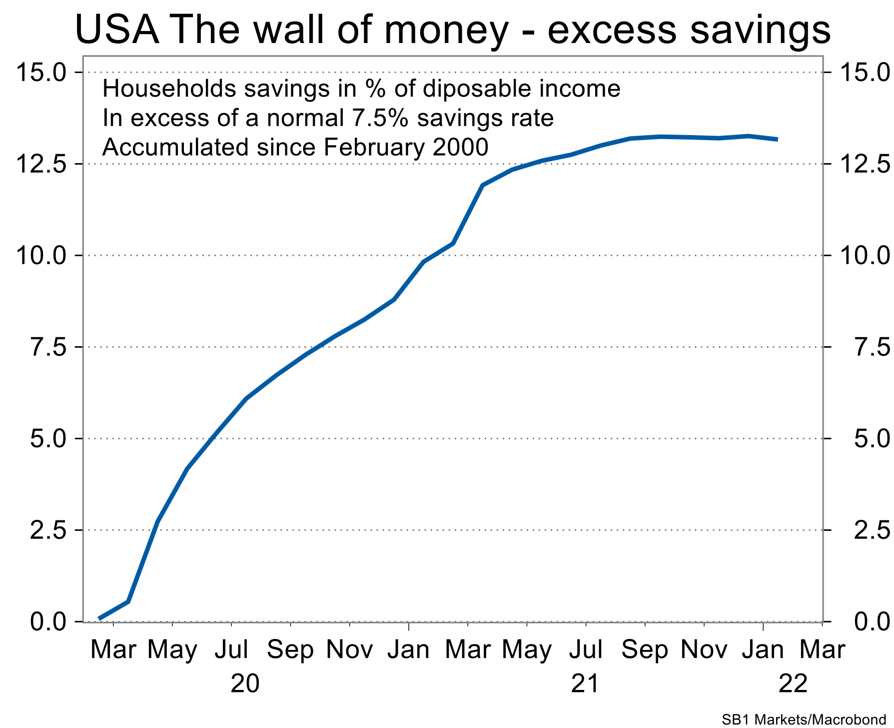


- Our old savings model, yields a 3% savings rate in Q4. During the 2016 – 19 period our old model has underestimated the savings rate systematically by some 2 pp
- The gap is now much larger – and it has been so during the pandemic, of understandable reasons – spending was not possible
- A downside potential for the savings rate (and upside for spending): **the accumulated households excess savings** during the covid crisis amount to some 13% of annual disposable income – the 'Wall of Money', check next page

The Wall of Money is still intact

The sum of ‘excess savings’ through the pandemic is at some 13% of annual disposable income



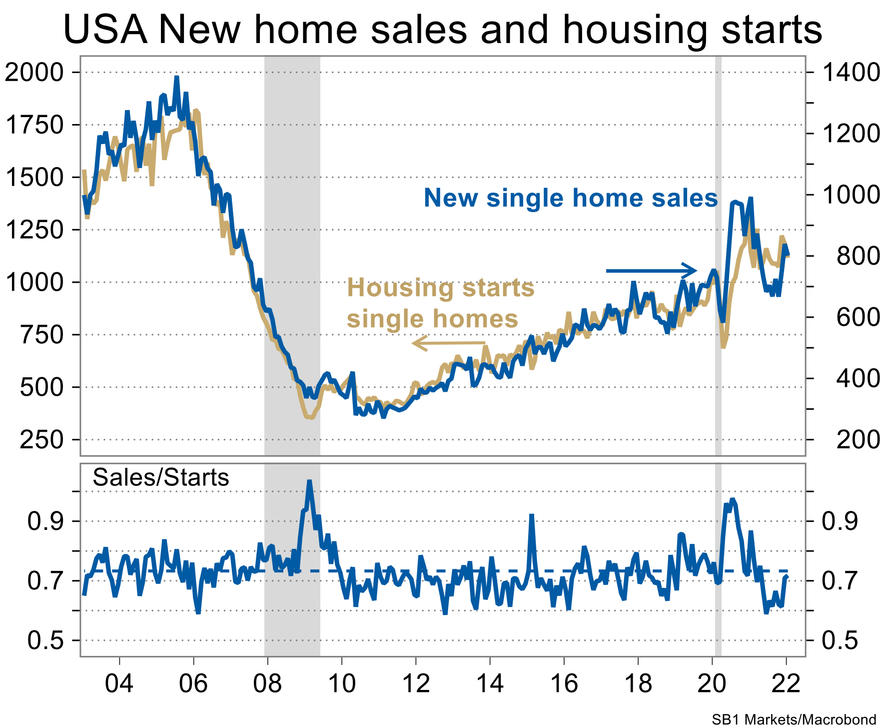


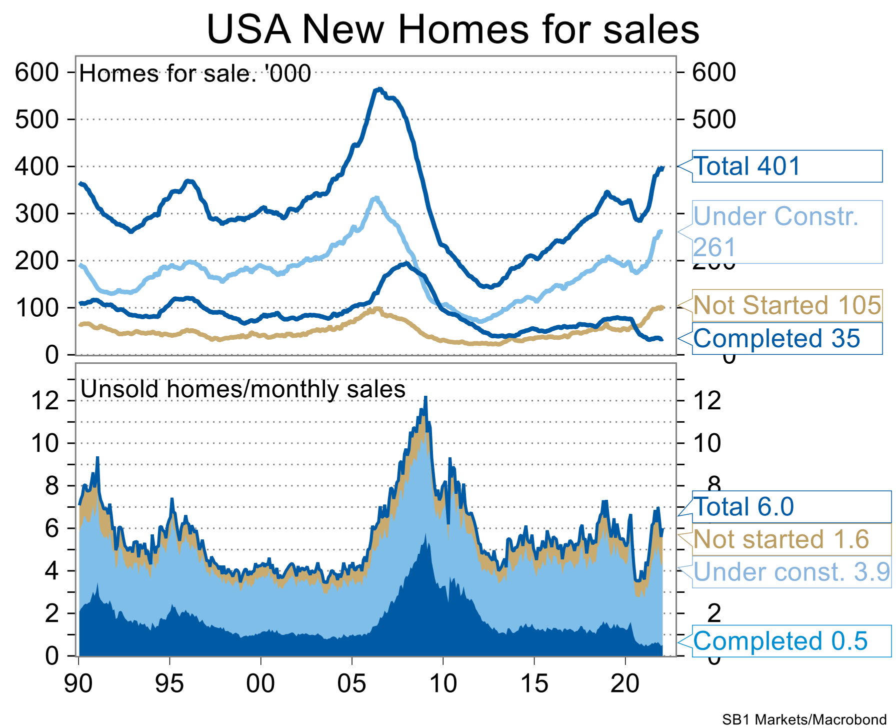
- Transfers from the government and low spending (on services) explained the lift in savings - but now spending is coming back, and the savings rate is now lower than before the pandemic

SpareBank 1 MARKETS

New home sales marginally down in January, are in line with starts

The inventory is growing but the early pipeline (not yet started) has stabilised. Prices are up 13% y/y

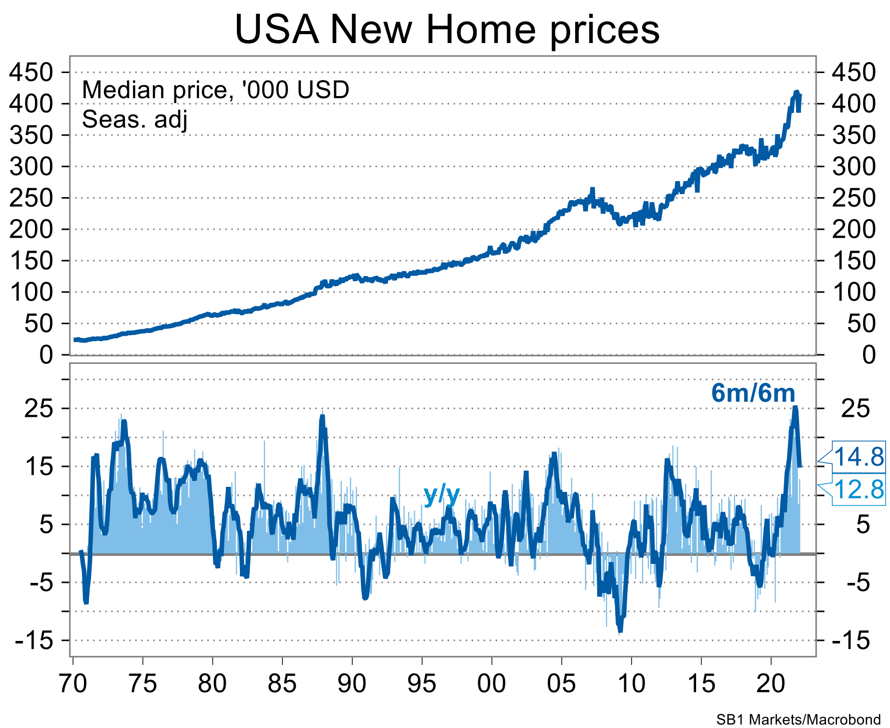


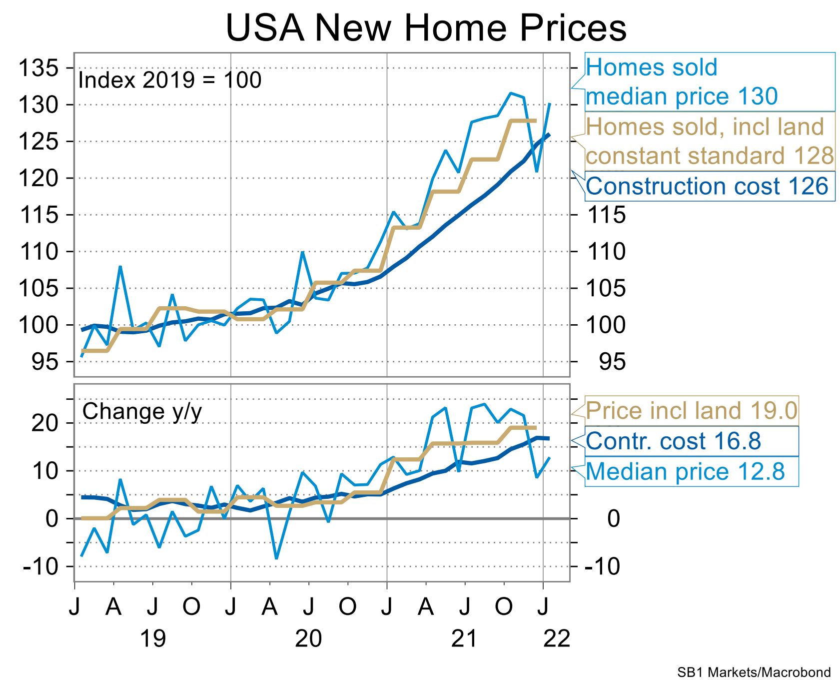


- **New single home sales fell marginally to 801'** (annualised rate) in January, as expected. These monthly figures are often revised substantially and the last observation is close to useless – but the two past months were at a decent level
- **The big picture:** Following a 30% decline from January to June, sales were stable through H2 last year, at approx. the same level as before the pandemic – until the Dec hike. Sales have been somewhat lower than normal vs. new single home starts (in avg. sales are 70%+ below starts, as may homes are built by the homeowner)
- **The inventory of unsold homes** has increased by 45% since Oct 2020, and the level is the highest since Sept 2008. The inventory equals 6 months of sales, a bit higher than 'normal' – and up from the record low level at 3.5 months in Sept 2020
  - » The increase in the inventory is not due to large increase in completed house for sale (the most 'effective' supply), and the inventory just equals 15 days of sale (half of a normal level). However, the no. of projects not yet started (but for sale) has doubled, to the highest number ever, and the no. of new homes for sales but which are still under construction has climbed rapidly, to the highest level since 2007. So, there are lot of homes in the pipeline, and clearly a confirmation that the supply side is responding to the steep increase in demand. At one stage, combined with higher mortgage rates, that could change the housing market outlook

New home prices up in January, and up 13% y/y

Construction costs are up 17% y/y, selling prices is up 19% as land prices are more up than constr. costs

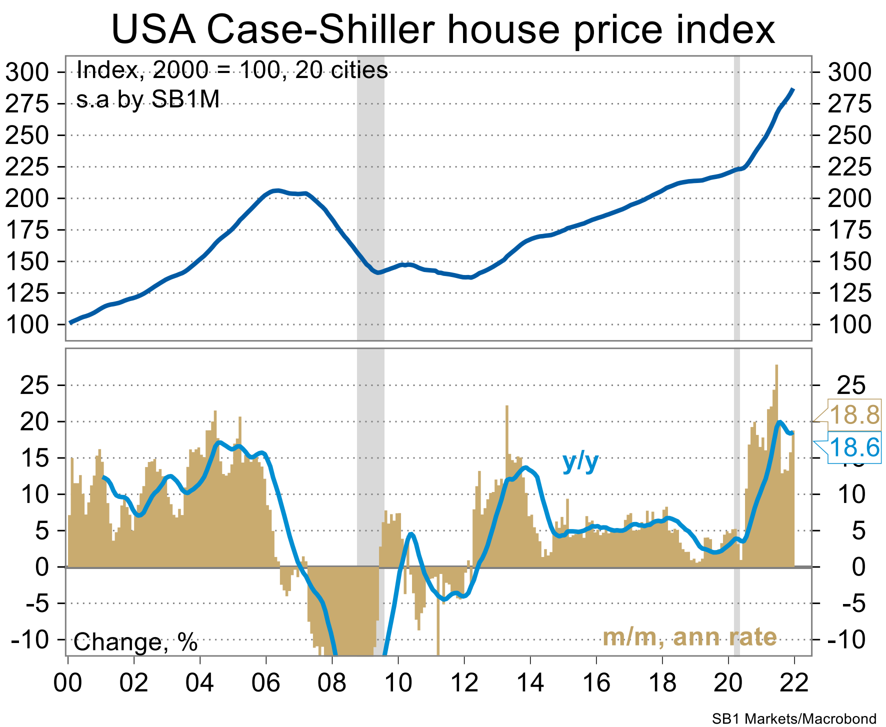


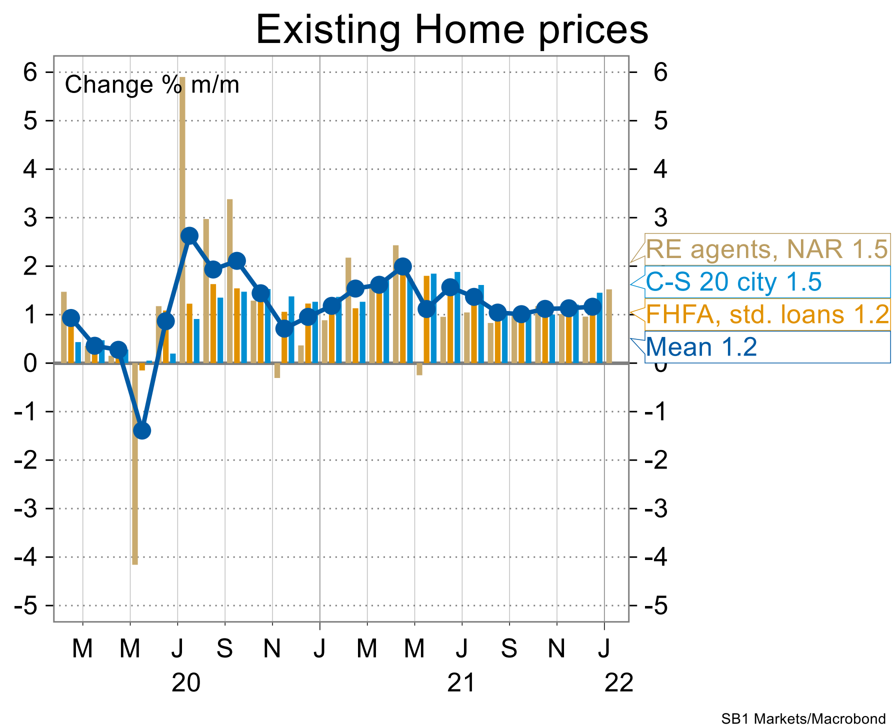


- Monthly **median new home sales prices** are volatile, as these prices are not adjusted for changes in the mix of home sold
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which also includes cost of land, and they are up by 17% and 19% resp., measured y/y in Jan/Q4
  - » As prices including land are still up more than the construction cost index (which of course is influenced by higher material costs), which implies an even faster increase in land prices. Thus, demand must be the main driver for the hike in prices, not the construction cost (if demand was weak due to high prices, prices including land would have climbed less than construction costs)

House prices inflation is accelerating again?

The Case/Shiller index gained 1.5% m/m (18.8% annualised), and the annual rate is 18.6%!

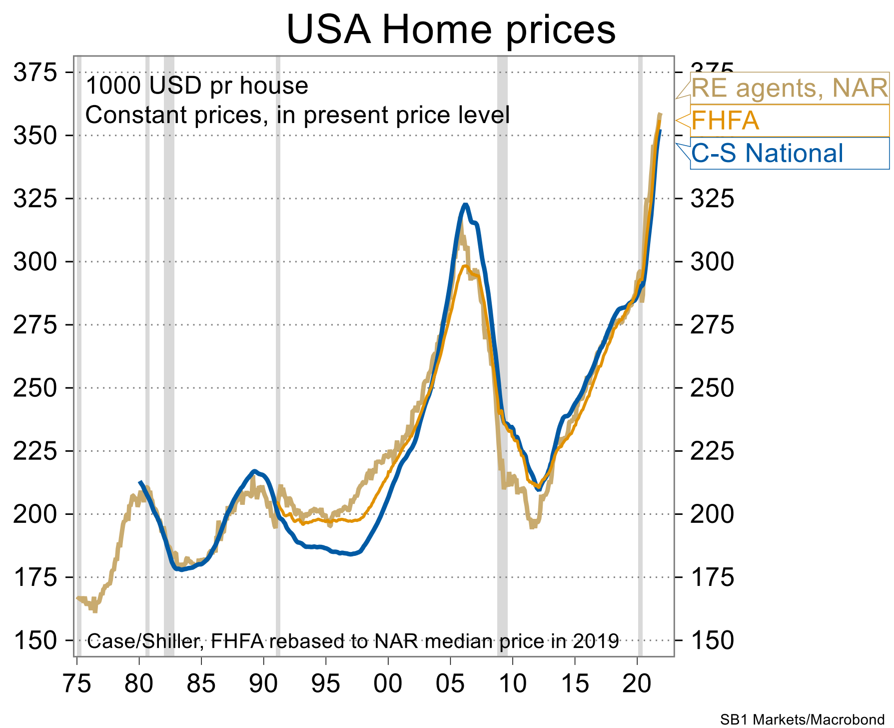


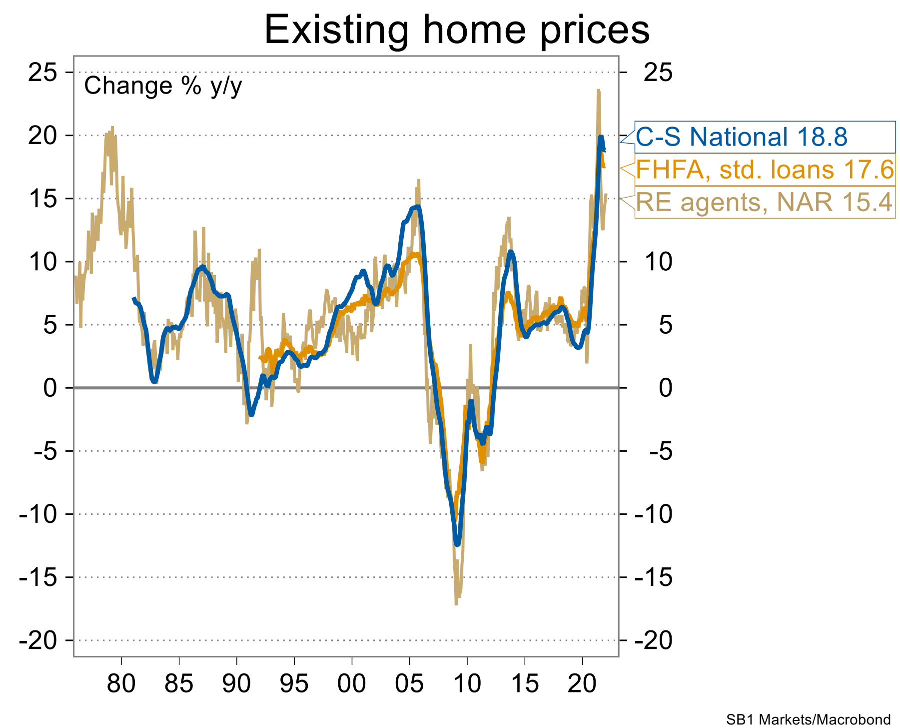


- **S&P's Case/Shiller's 20 cities** price index rose 1.5% m/m in Dec (Nov – Jan avg), expected 1.2%, equalling a 18.8% annualised pace, up from 1.2% in Nov – and 0.9 % in October. The annual growth rate was 18.6%, 0.5 pp higher than expected. Prices are up 30% since before the pandemic
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 1.2% in Dec, and are up 17.6% y/y. The ATH annual rate before the pandemic surge was 11%, ahead of the housing crisis 15 years ago (chart next page)
- **Relators** reported a 1.5% price lift m/m in January, the largest lift since last April

Some special house data – both measured y/y & the real price level

Real prices are now 10 – 20% above the pre-financial crisis level

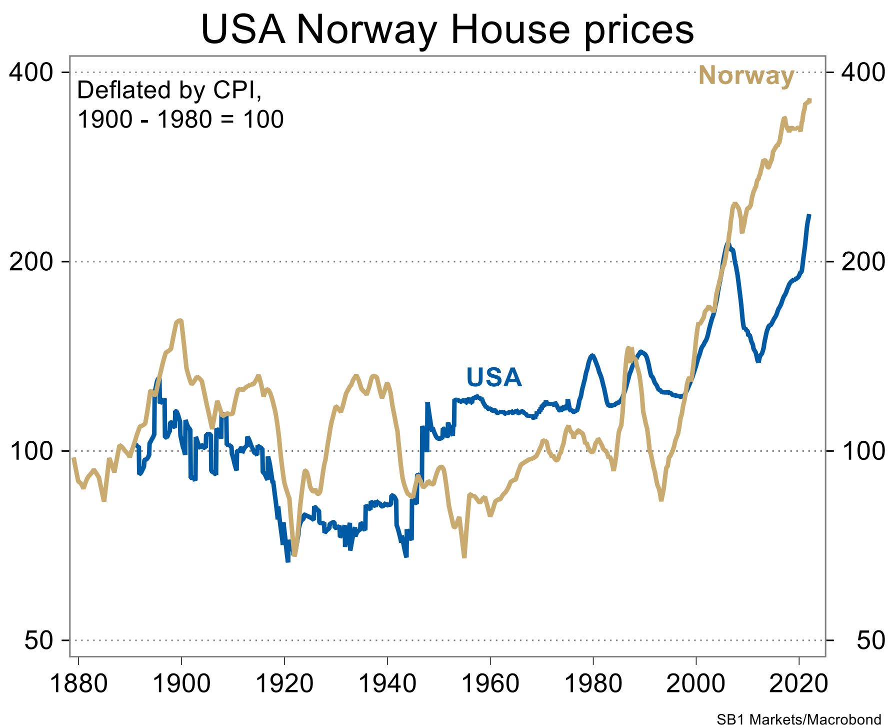


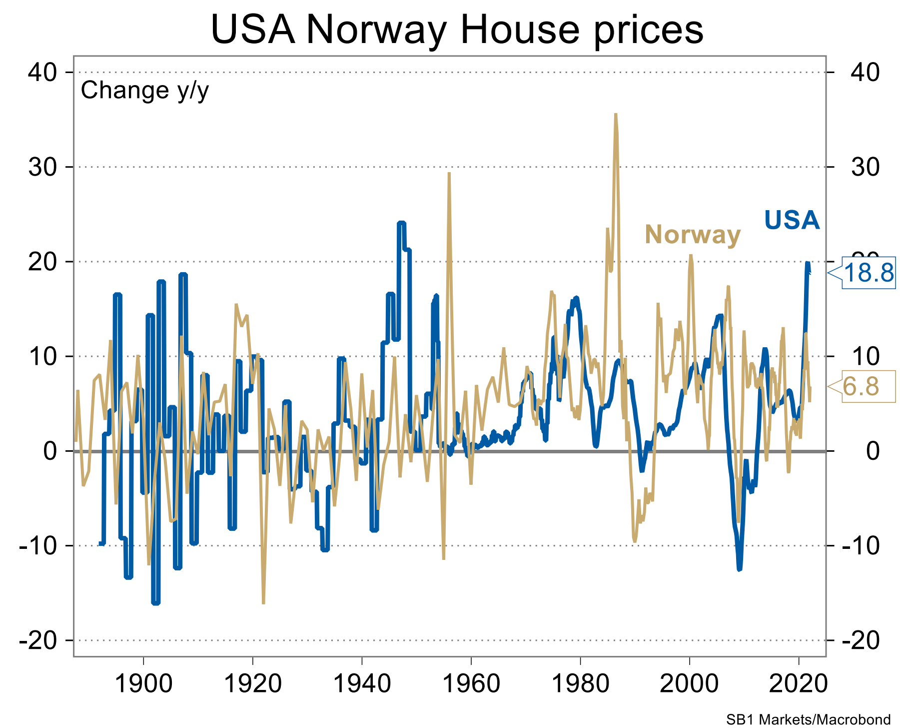


- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index reported the highest house price appreciation ever (or since 1948) during last year
- Real prices are far above the 2006 peak
- There are still some big differences vs the mid 2000 housing bubble
  - » **Housing starts** are at a lower level. The **inventory** of 2nd homes for sale is record low (vs high 15 – 16 years ago). However, the inventory of new homes for sale is climbing rapidly
  - » The **debt/income ratio** has fallen sharply since the peak before the financial crisis. However, credit growth has accelerated during the pandemic
  - » The **savings rate/net financial investments rate** has now fallen to below the pre-pandemic level– but the ratios are far above the level in 2005

For the record

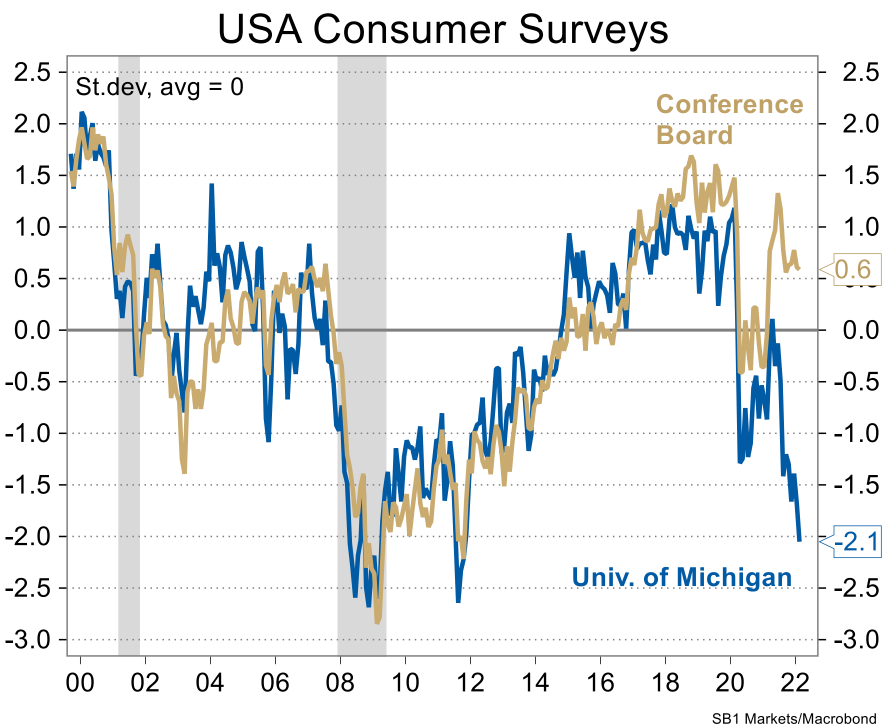
Some entertaining house price charts





Conference Board's confidence slightly down in Jan but miles above the UM surv.

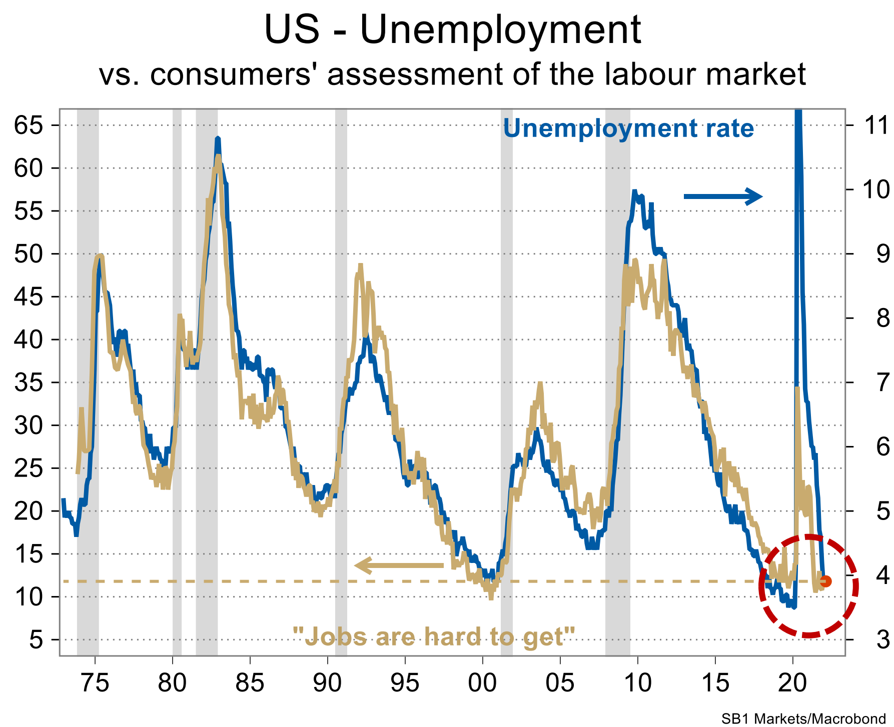
CB's index down 0.2 st.dev to +0.6 above avg, better than expected and miles above the UM sentim.

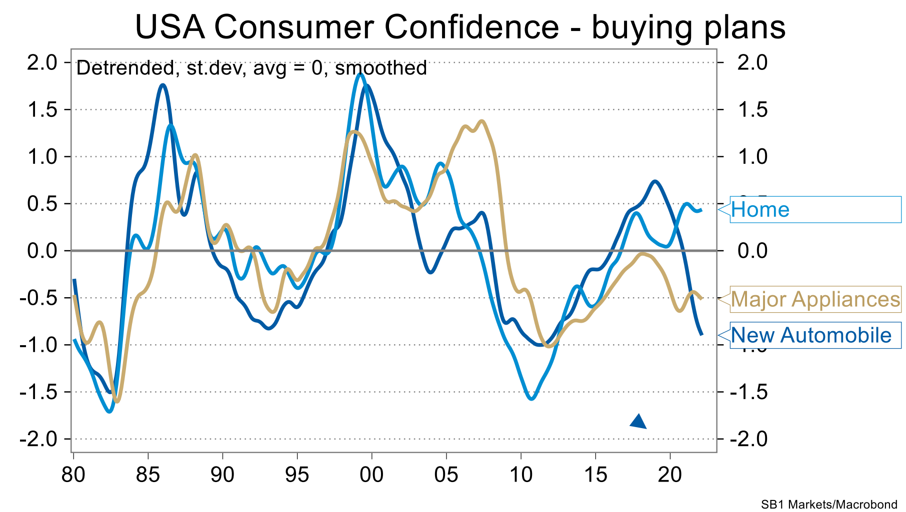


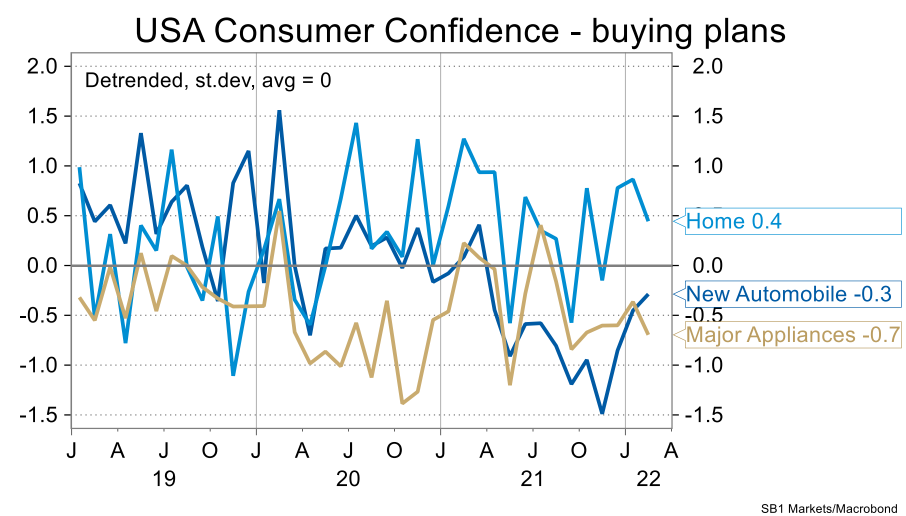
- The **Conference Board's consumer confidence** index lost 0.6 p to 110.5, expected down to 109.5 from previously reported 113.8 in January. The index is 0.6 st.dev above average (down 0.2 st.dev). Households' assessment of the current situation rose marginally, while expectations fell. The current sit. Index is 1 st.dev above average, while expectations are 0.3 st.dev below
  - » Households still report a tight labour market, and they adjusted their spending plans upwards in January, home buying plans are now the most upbeat in years
- **University of Michigan's sentiment** fell a tad less than the first estimate, but remains at -2.1 st.dev – even weaker than during the first wave of virus outbreak last spring

Jobs are very easy to get, house buying plans revised down

Home buying plans are still above par, event if mortgage rates are on the way up



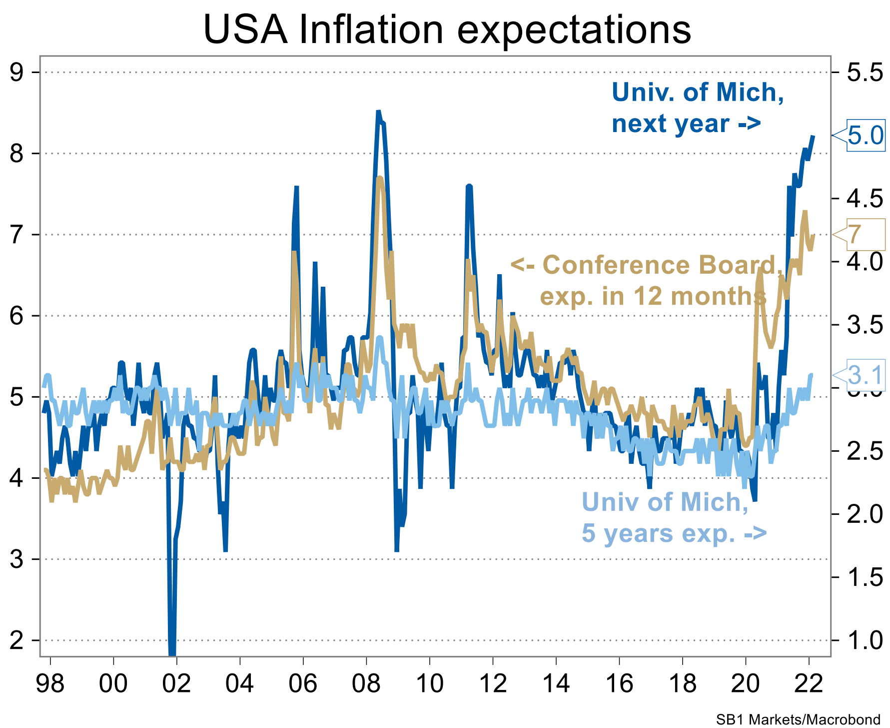




- **Household spending plans** are volatile, and in sum not aggressive – but plans have strengthened the past 3 months
  - » Plans for buying a new cars are still lower than normal, for good reasons – but recovered in Dec and Jan

Inflation expectations are far above normal levels, especially the short term

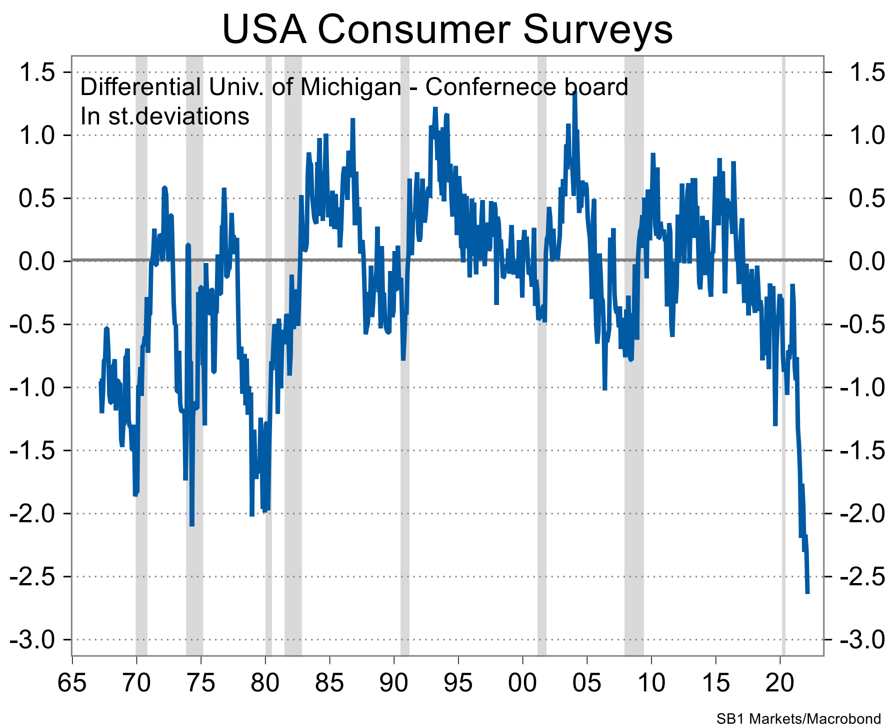
Long-term expectations are up but are not that high

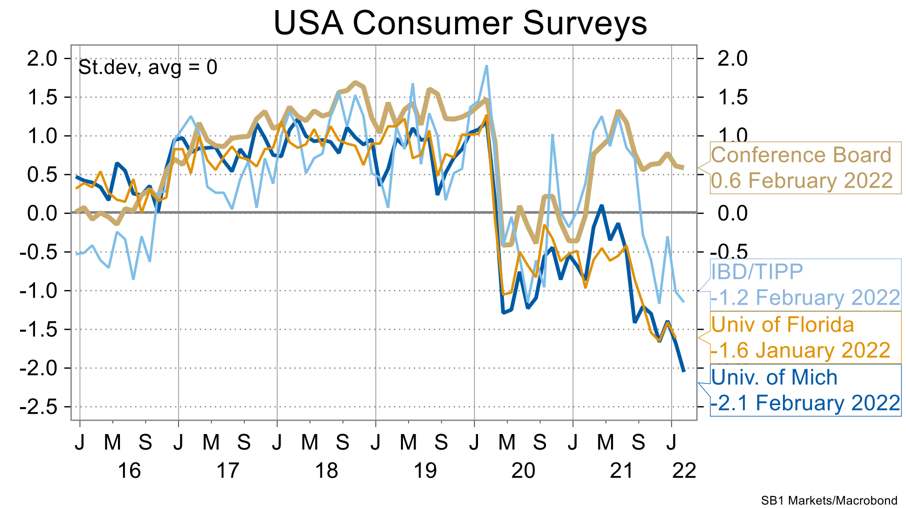


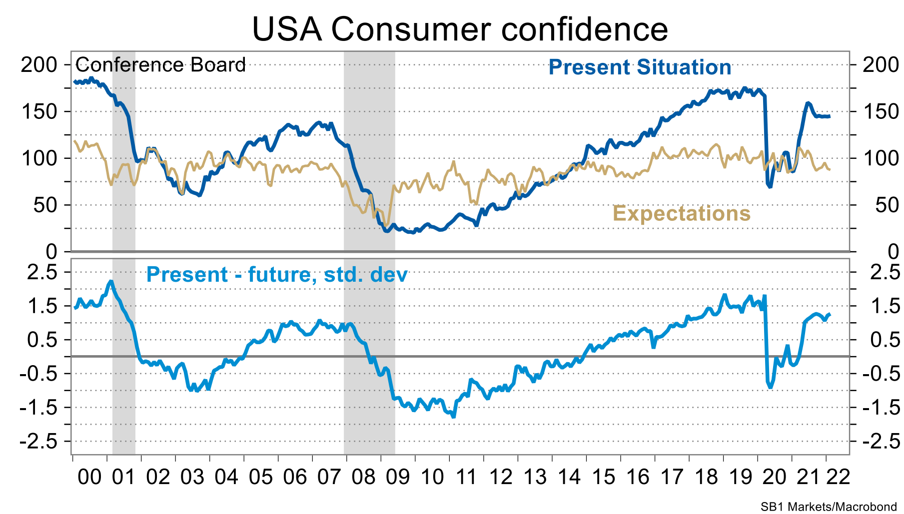
- … at least according to Conference Board

The gap between consumer surveys remain frustratingly high!

Almost always, when UM grounded before CB yielded, UM was right. And the recession started

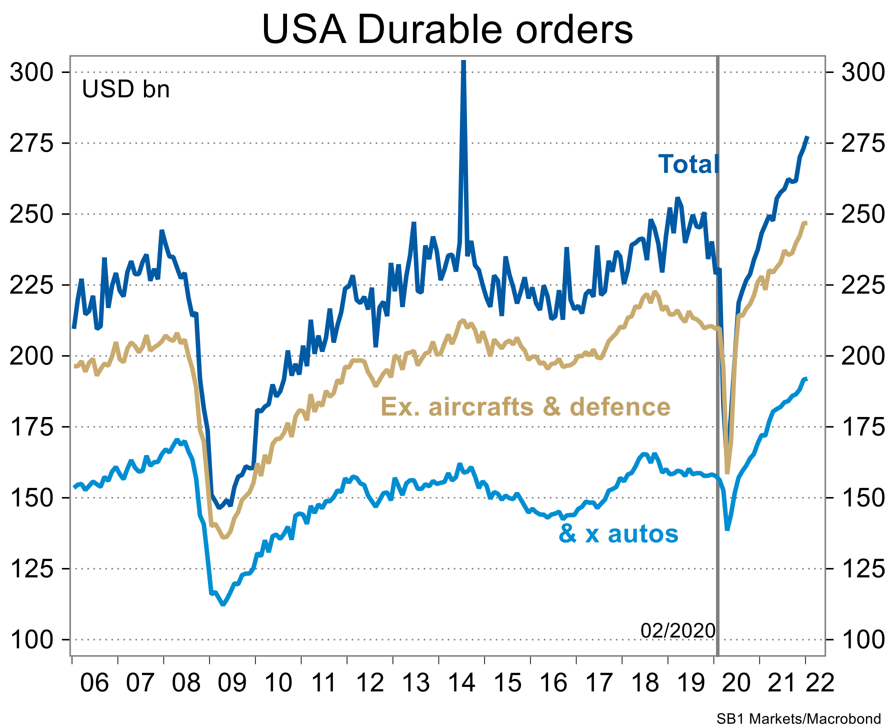


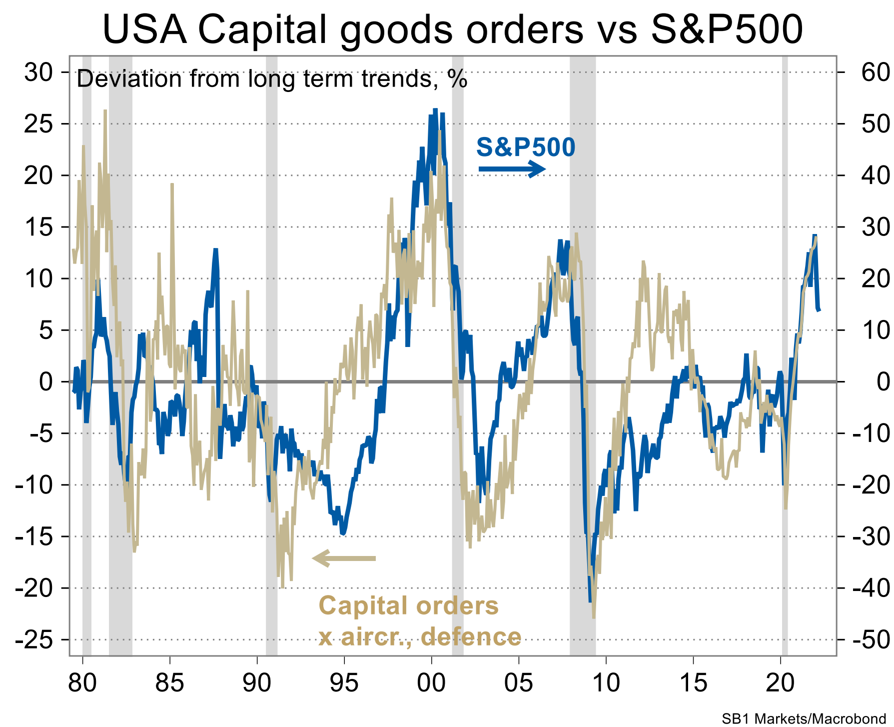




- All other surveys are down, and all but CB's survey have fallen to below average – and to far below average levels
- High inflation is normally not welcomed, but we have not been able to explain the drop in UM sentiment by the traditional factors (including inflation and inflation expectations but also including growth, unemployment, mortgage rates etc). In addition, the sentiment soured without any deterioration of the Covid-19 situation (the sentiment fell well before Omicron arrived, and now restrictions are gradually eased as the Omicron is on the retreat)
- Simply, we do not have good explanations! Actual behavior – so far – indicate that Conference Board's index is far closer to the ball vs the other indices

Strong order inflow in January too

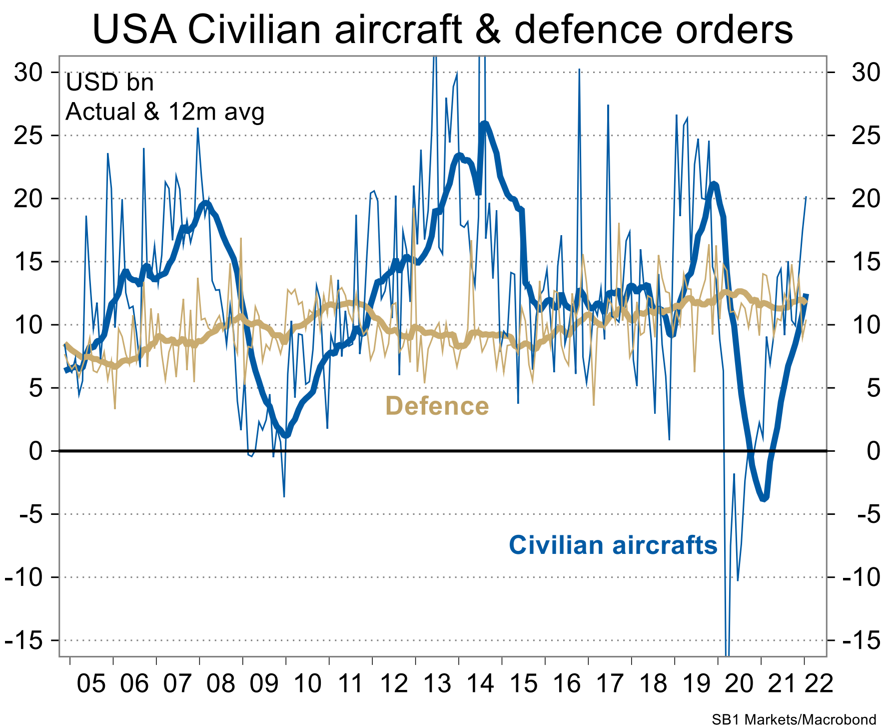


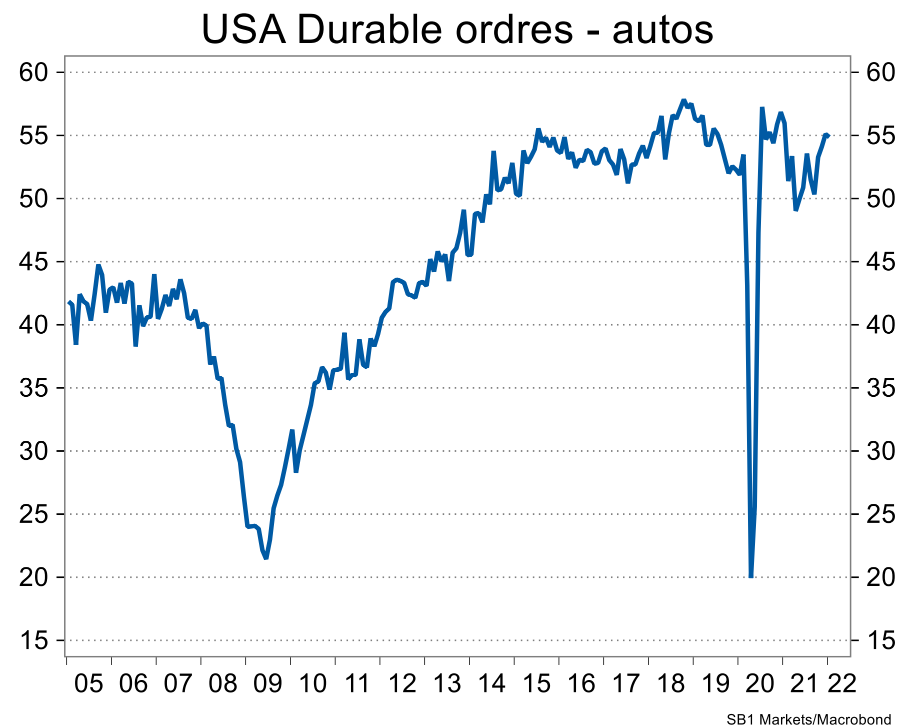


- **Total durable** rose further by 1.6% in January, expected up 0.9%, and the 0.7% decline was revised to a 1.2% uptick. Aircraft order surged in Jan
  - » Ex also defence, the order inflow was unchanged following an +0.4 pp upward revised 1.6% growth in these two components, the ‘core’ rose by 1.4%, well above expectations – and the trend is strong
- **Core <u>investment</u> goods orders** were up 0.8% (expected 0.3%) and the trend is still solidly upwards
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase coming months

Aircraft orders sharply up in January

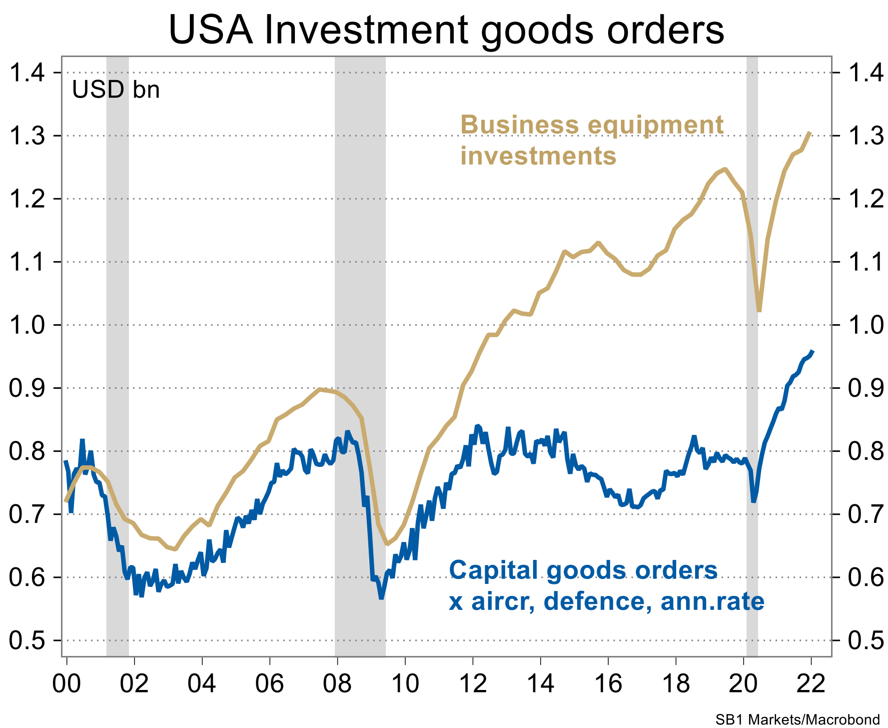
Auto orders are back to a normal level

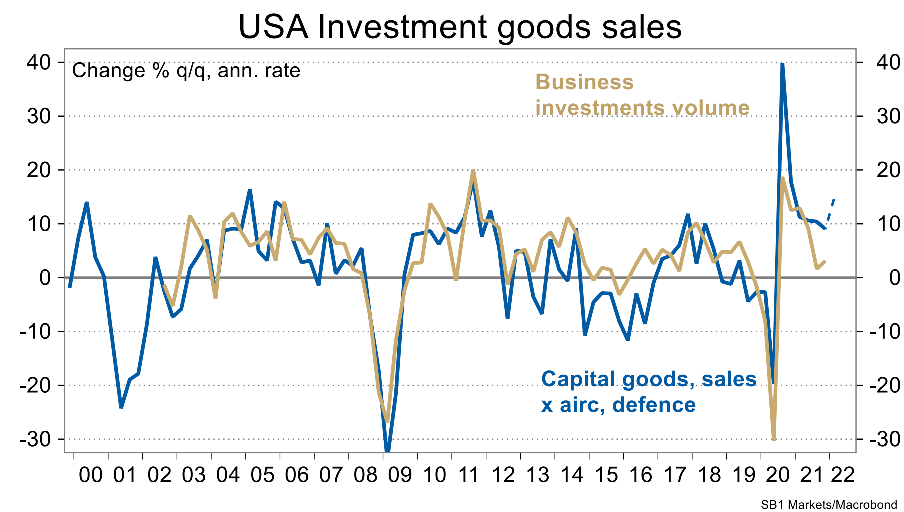


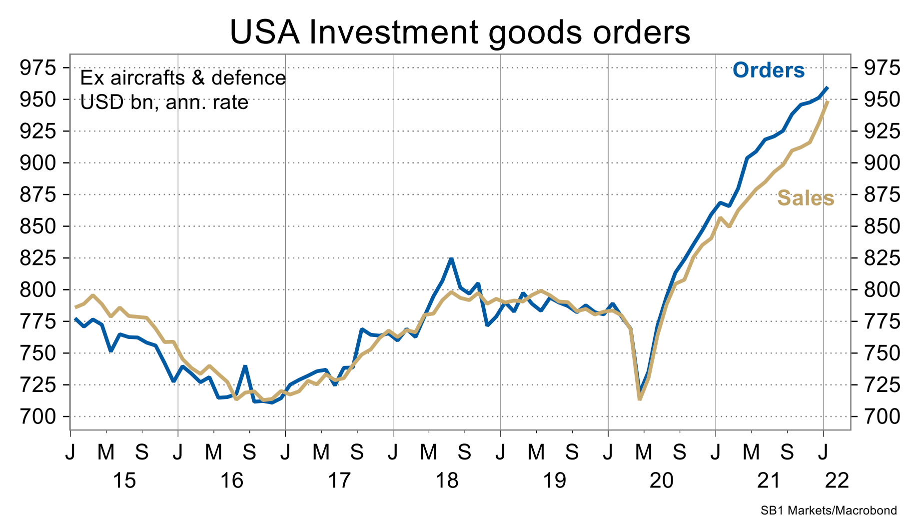


Core capital orders are still going strong

Signal decent growth in business investments into Q1 following a two 'slow' quarters



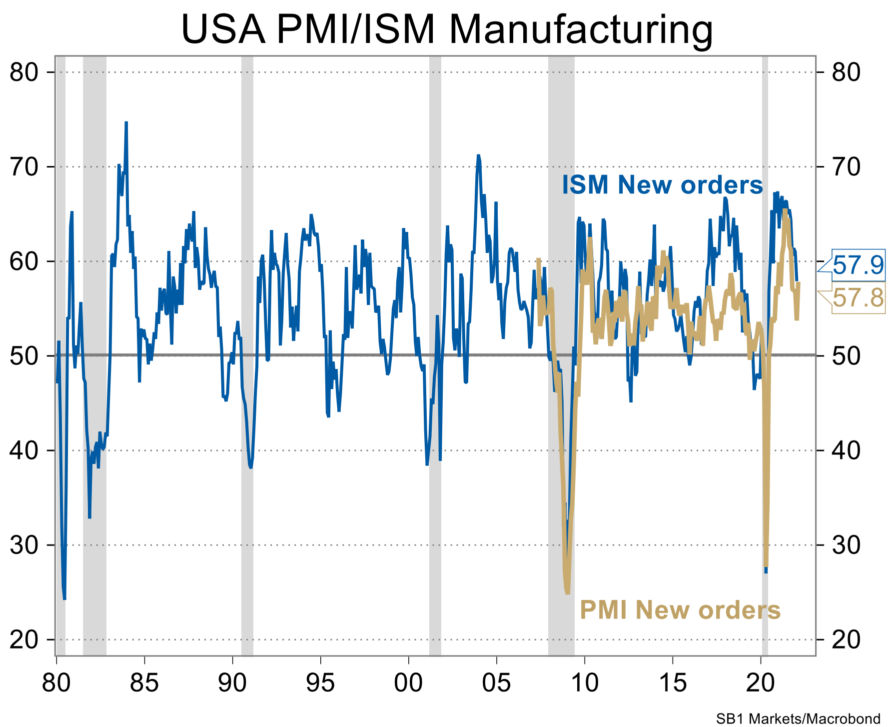


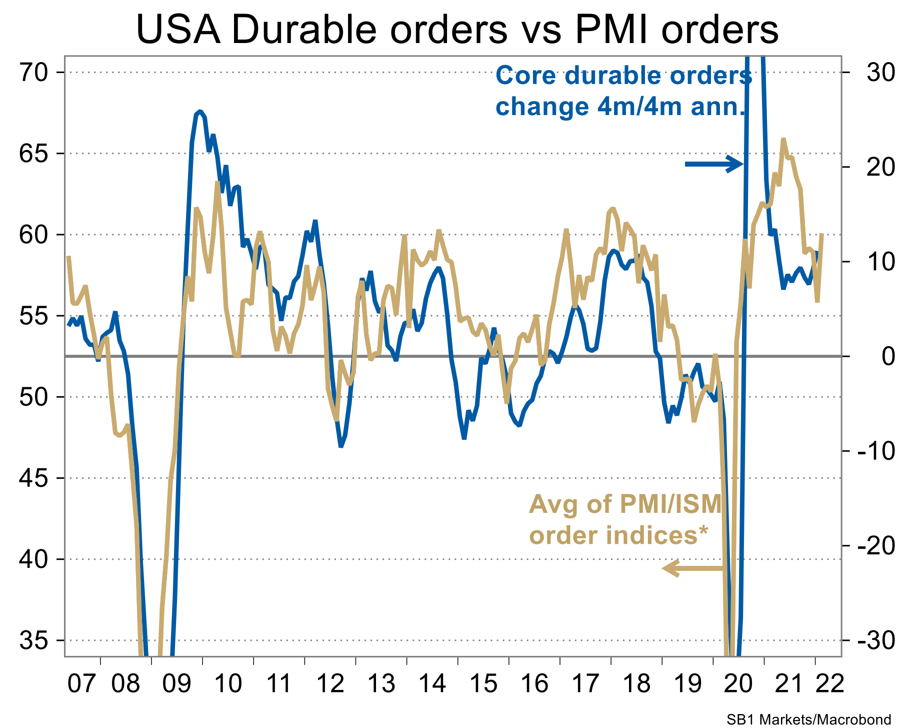


- **Core (x aircraft, defence) capital goods orders** rose 0.8% in Jan, after two months with slower growth, and growth has slowed recent months. Still, the 3m/3m rate is at 7%. Shipments were up 1.9%. A decent growth in business investments is signalled (following a rather slow growth in Q3 and Q4)
- **The business investment** level is well above the pre-pandemic level – and not at low vs. a reasonable long term trend (see more data, comments here)

The ISM/PMIs are signalling a further, and rapid growth in order inflow

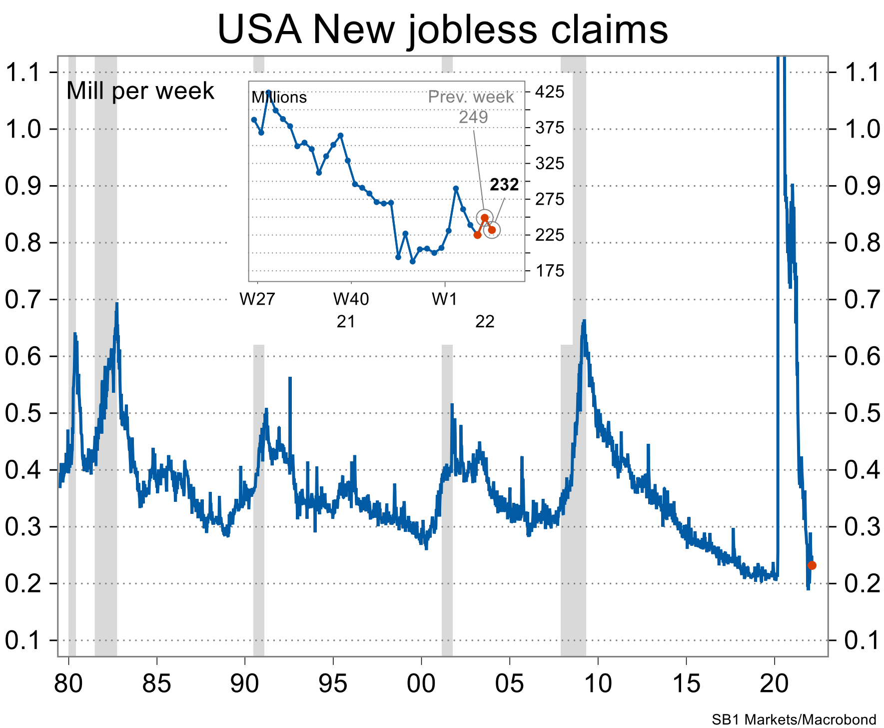
These surveys are reporting a rapid increase in order backlogs as well

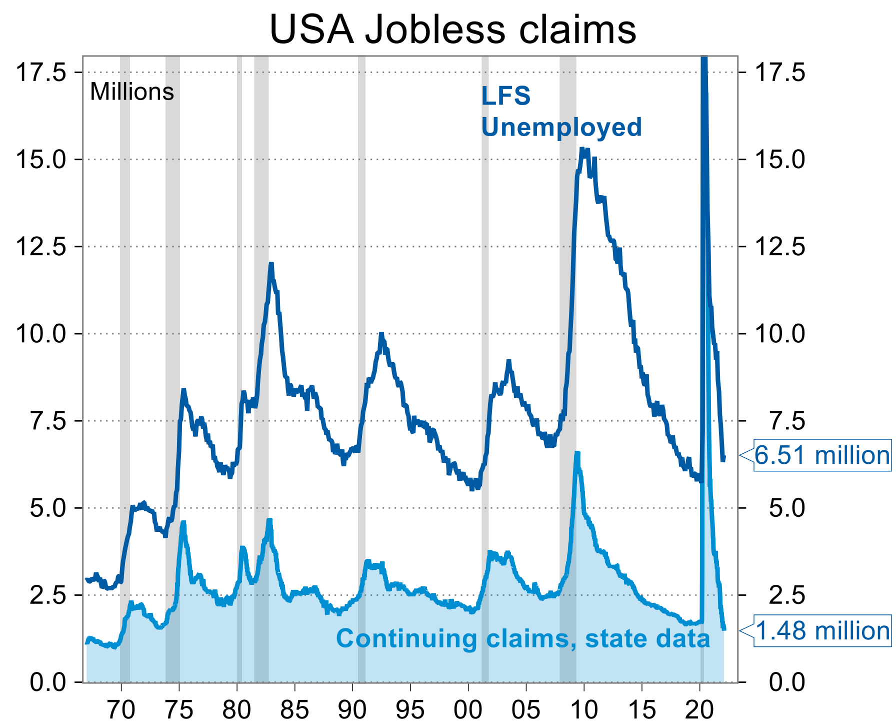




* The ISM order index is

New jobless claims down last week – and very few left on the dole

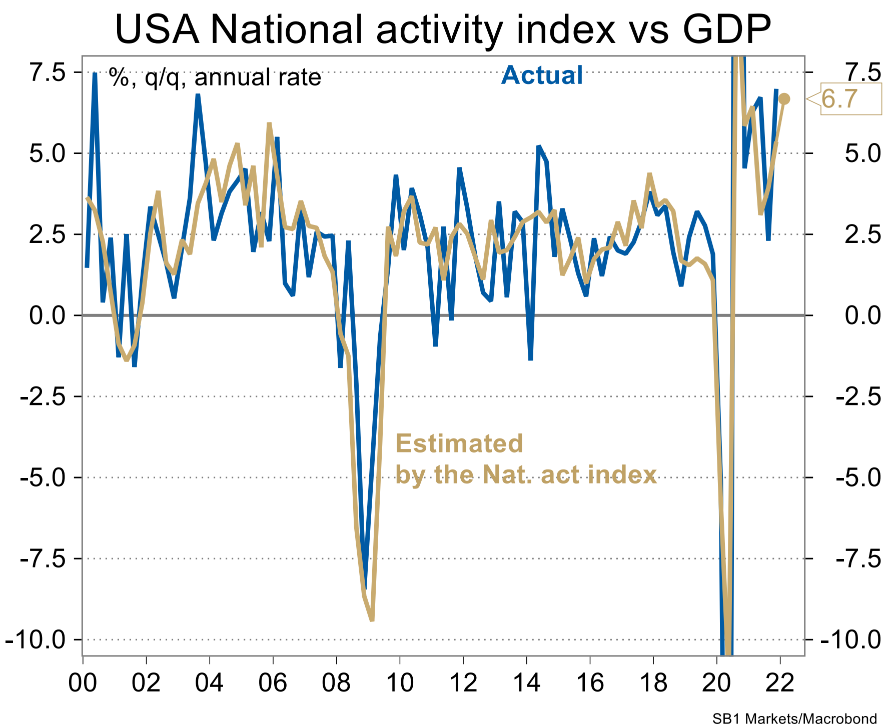


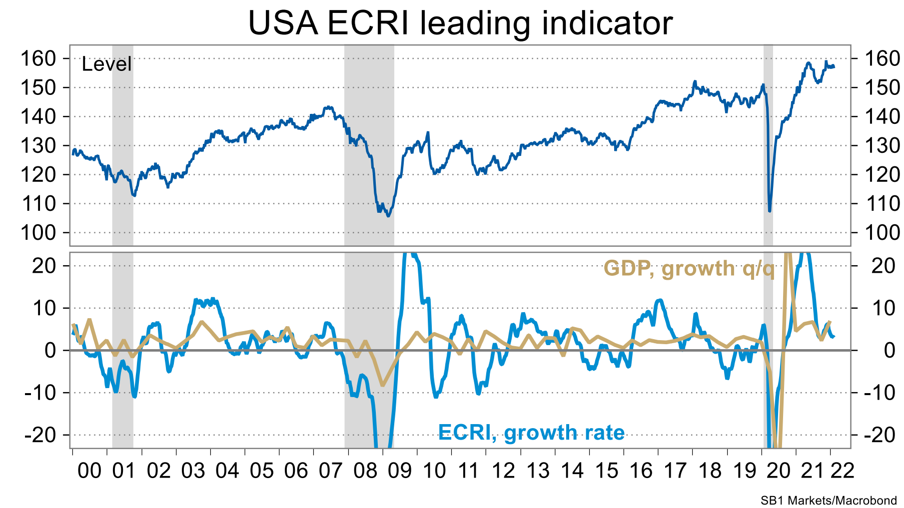


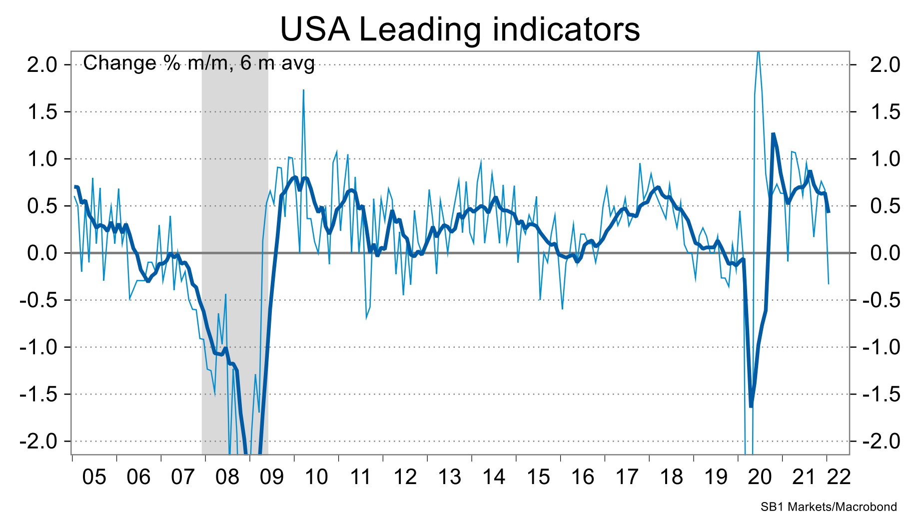
- **New jobless claims** fell to 232' in week 7 from 249' the previous week. The inflow is low – but somewhat above the level last year
- **Ordinary continuing claims** fell by 0.1 mill in week 6, to 1.48 mill, the lowest level since ~~1973~~ 1970, and as share of the labour force, the lowest ever, by far

The national activity index strengthened in January, strong growth signalled

More jobless claims, weaker consumer confidence (vs businesses), and lower stock prices

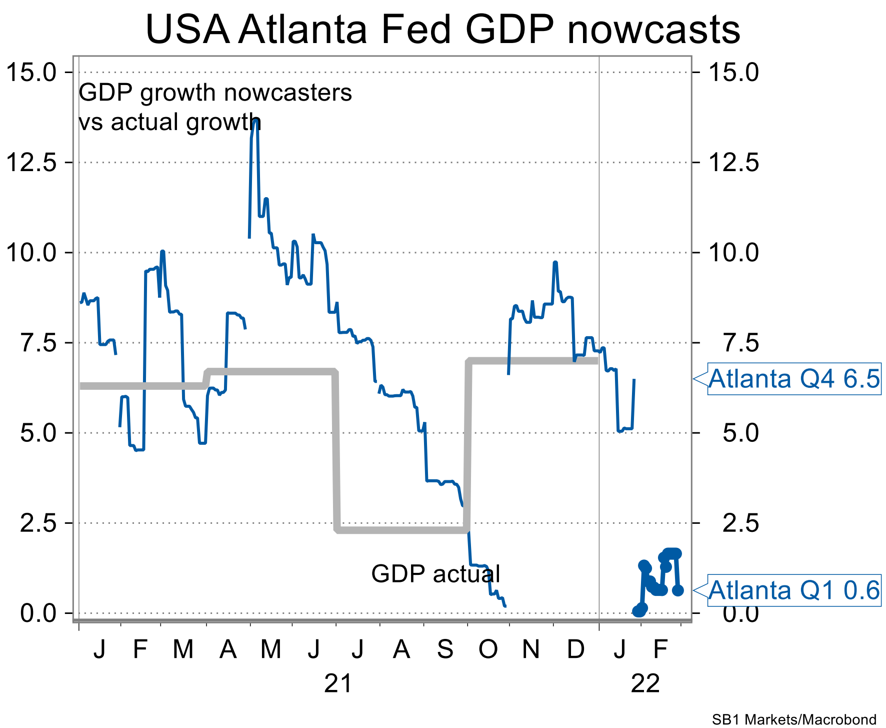


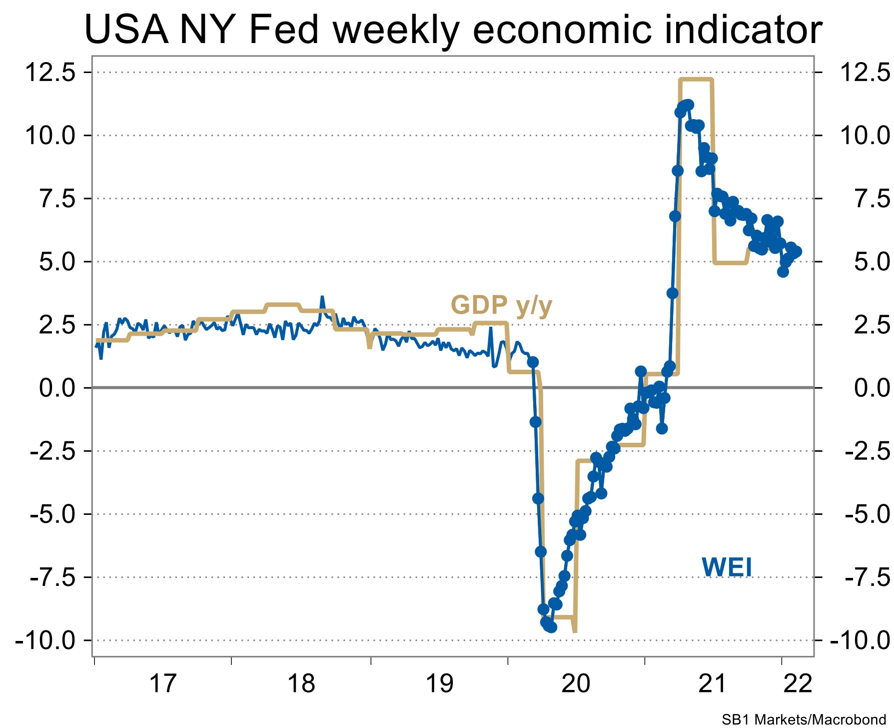




- The contrast to Atlanta Fed's nowcaster is unusual, check next page for the nowcaster

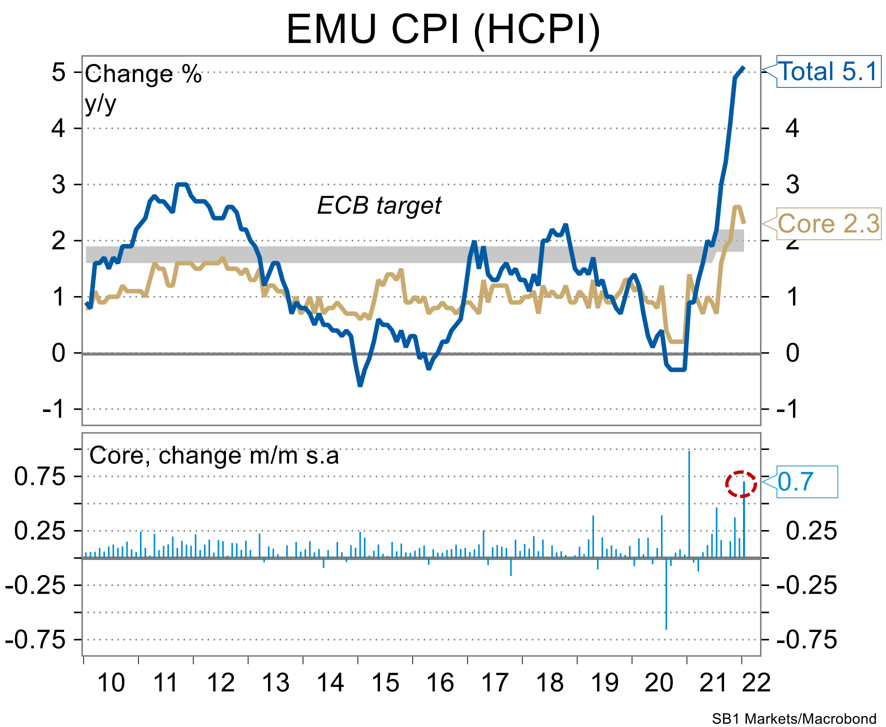
Atlanta Fed's nowcaster suggests 0.6% growth in Q1

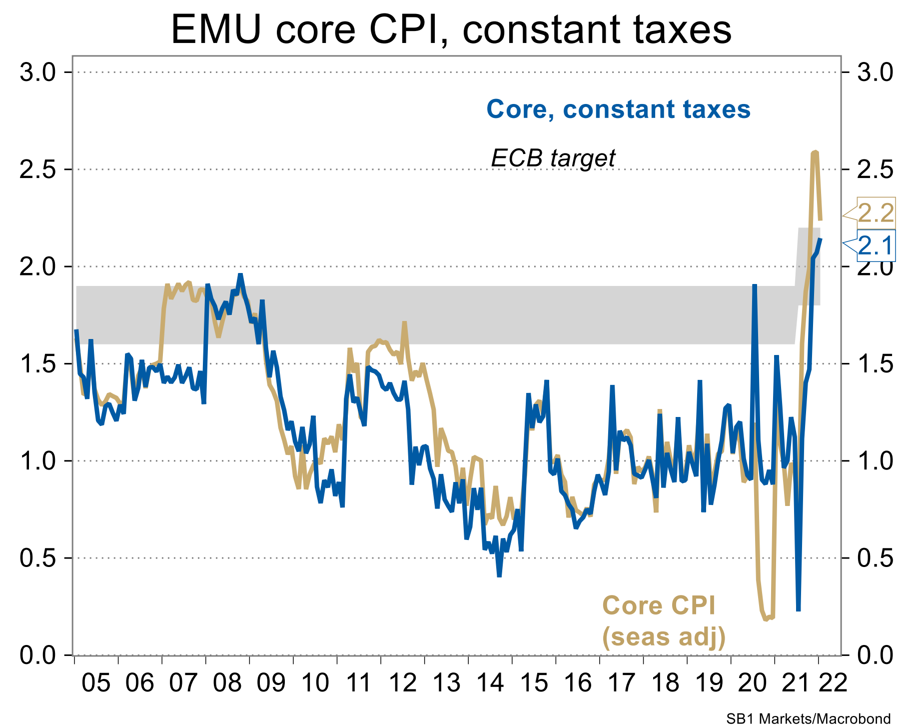




Eurozone inflation confirmed up 0.1 pp 5.1% in January

Core inflation down 0.3 pp to 2.3%, well above the target (and far above original expectations)

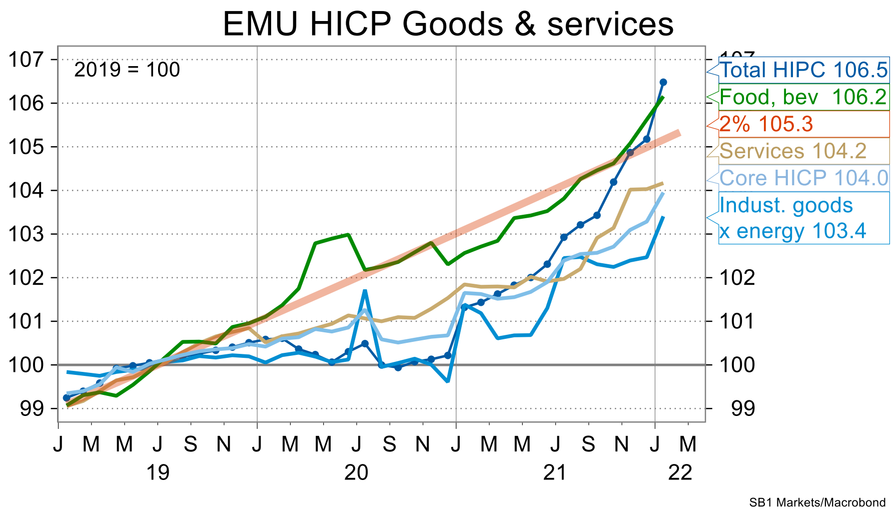


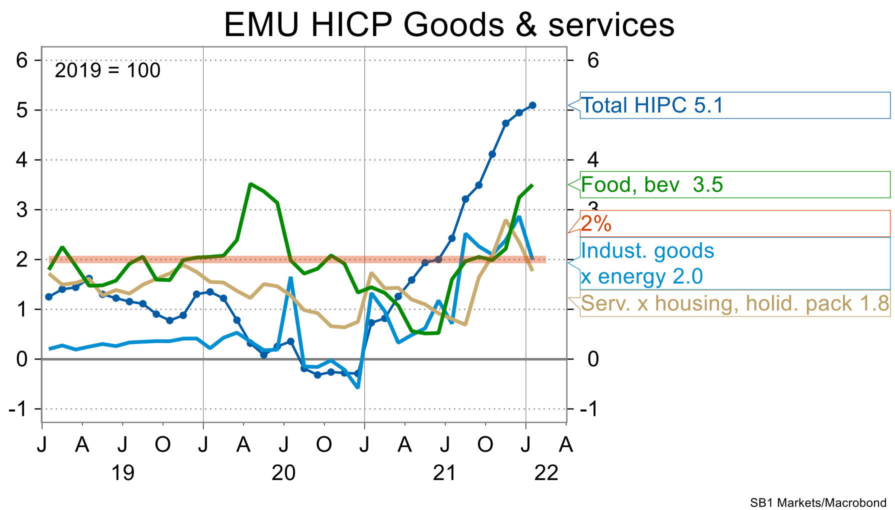


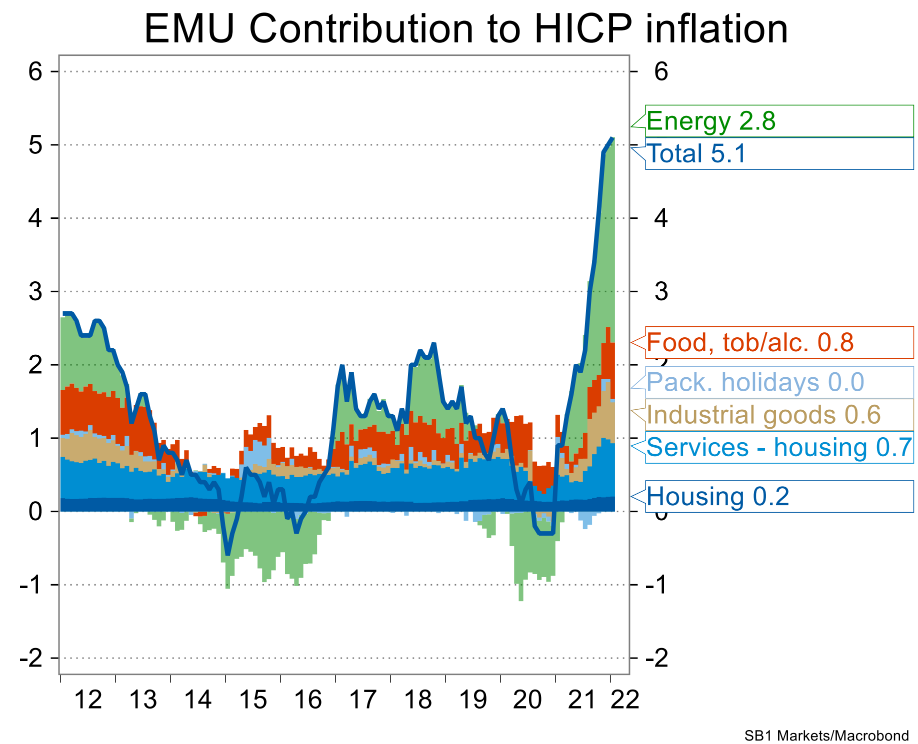
- **The headline HICP** rose 1.2% m/m. Energy prices rose 5.2% - and they are up 28% y/y, contributing 2.8 pp to the headline 5.1% growth rate. Food prices rose 0.5%, and they are up 3.5% y/y
  - » The annual headline rate at 5.1% is far above ECB's inflation target, and by 3% over the past 2 years in average
- **Core prices** rose 0.7% m/m, still the annual rate fell to 2.3%. However, a far larger decline was expected (before preliminary date were published 2 weeks ago). The average over the 2 past years is still below 2% but not by much
  - » Industrial goods x energy rose 1% m/m, several types of goods contributed. Service prices rose too, both hotels, package holidays & airfares, maintenance services
- **Adjusted for changes in taxes**, the core was unch at 2.1% y/y in Jan

Energy remains main culprit, but some others are on the move too

Other prices are up more than 2.5% y/y

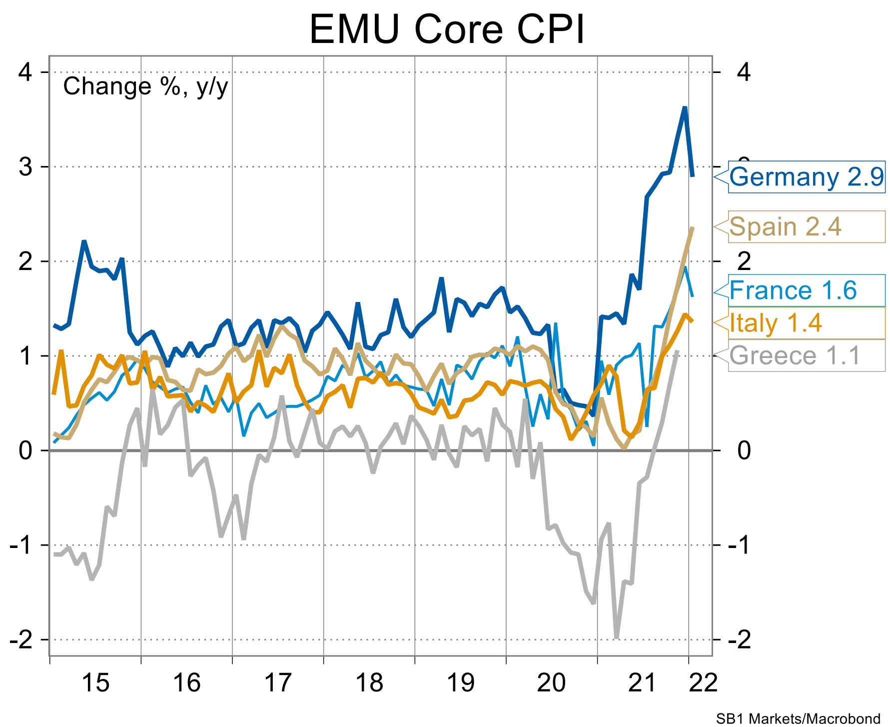


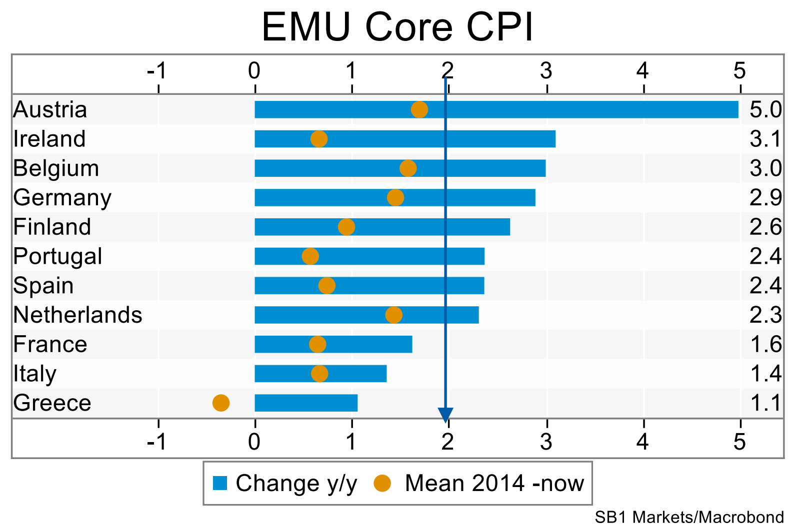


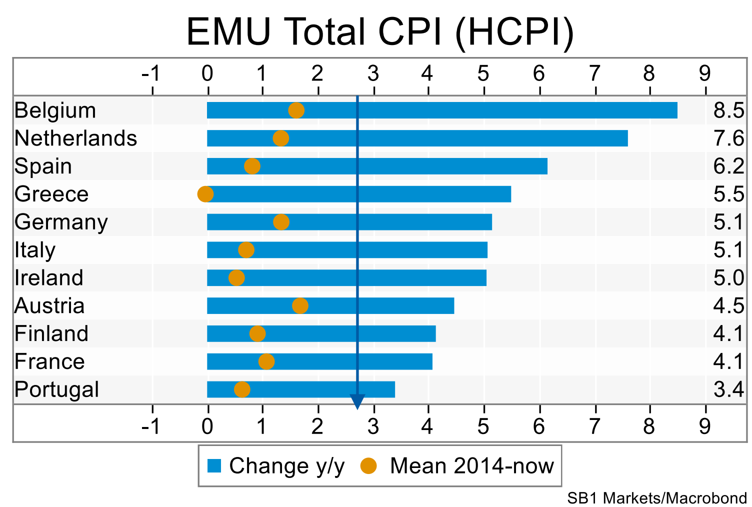


- Energy prices fell slightly in December – and are up 26% y/y
- Some other prices are rising faster y/y too, but mostly due to dips in prices one year ago

Core inflation now above 2% in a majority of countries



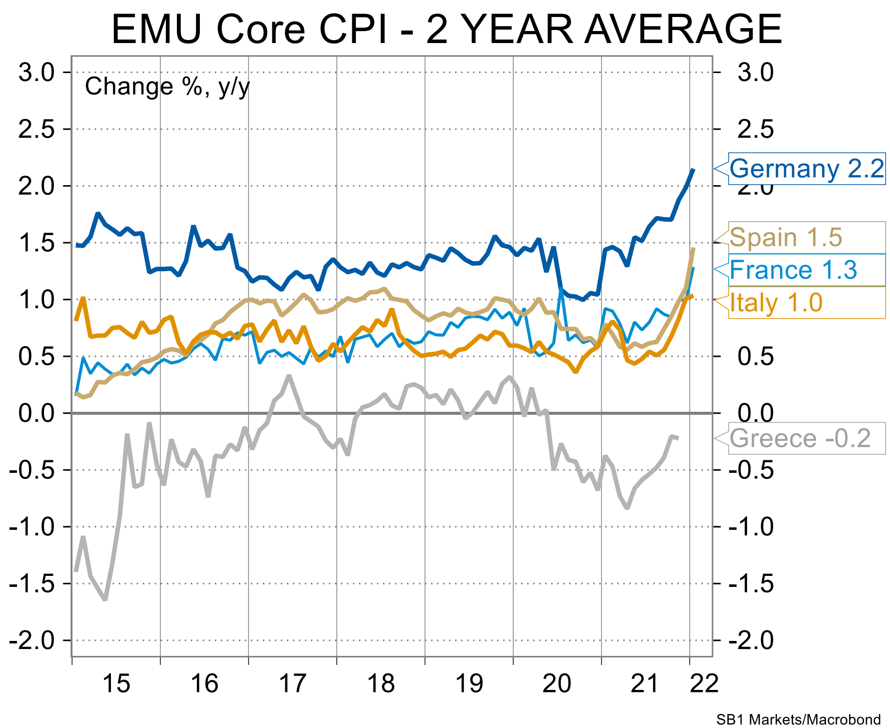


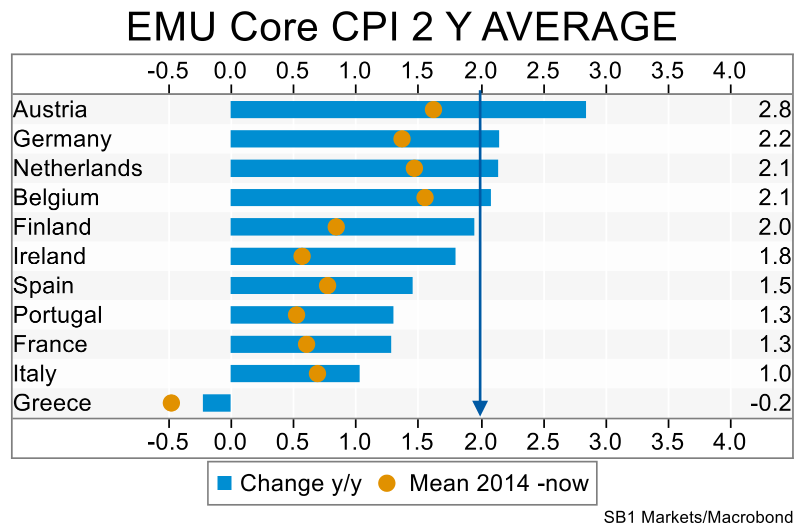


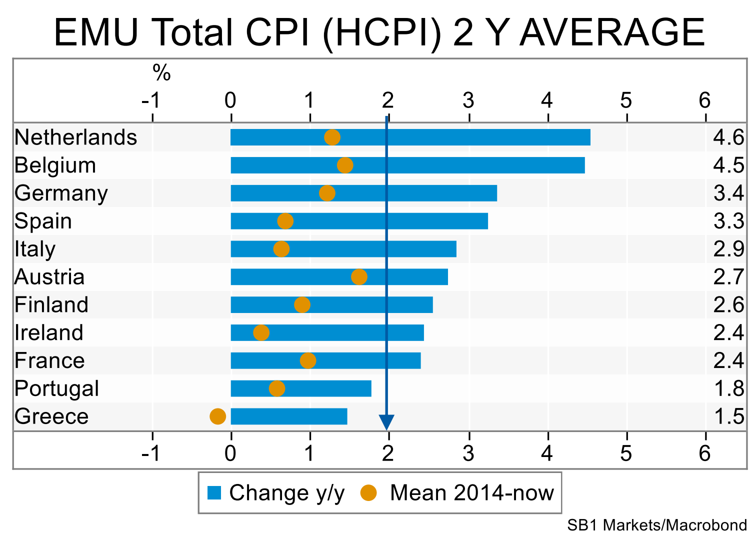
- The base effect is substantial: *Check next page*

Over the 2 PAST YEARS: A bit more nuanced picture!

Core inflation <u>below</u> 2% most places



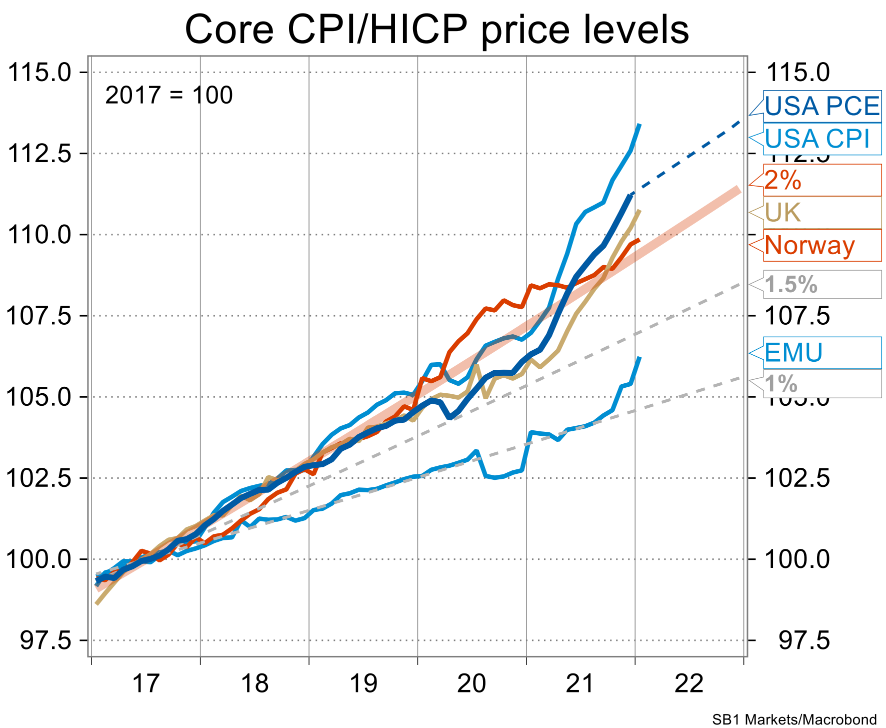




- The base effect is substantial. In Germany the average core inflation over the **two past years** is 2.2%, compared to the 2.9% one year growth rate

The EMU & the ECB do not have the same challenges as USA & the Fed

While UK may be positionend inbetween.

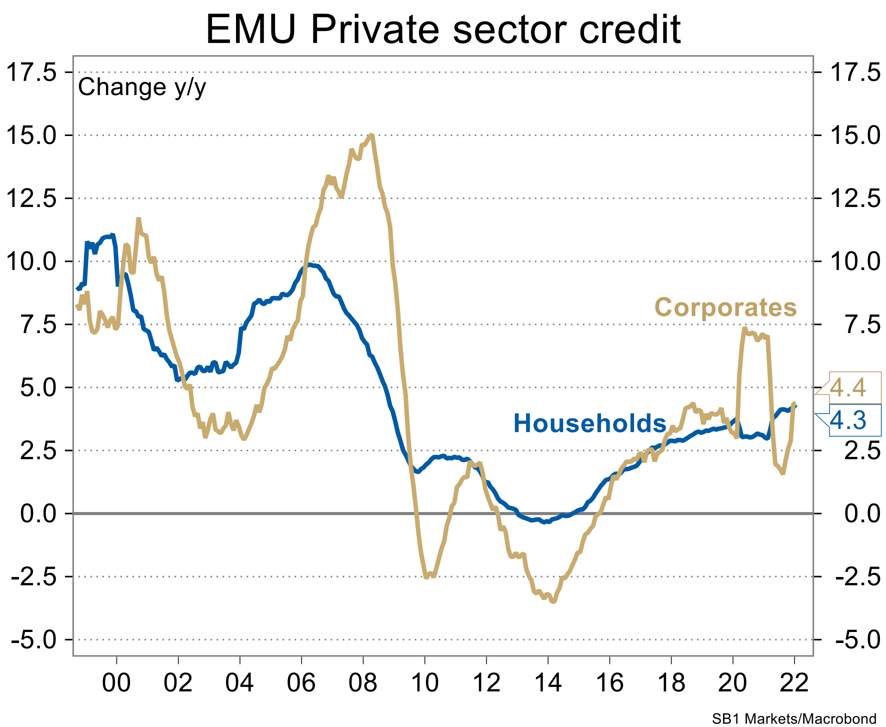


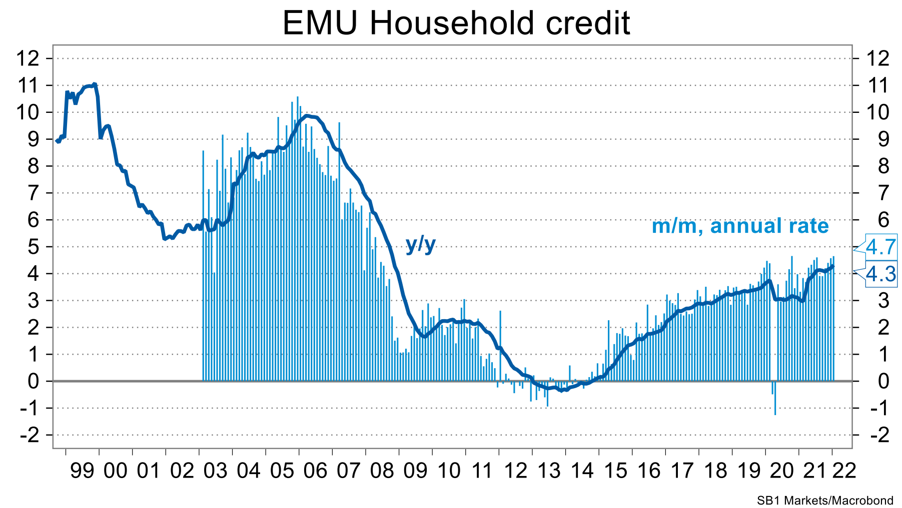
- Spot the huge difference over time between EMU and the others (here USD, UK & Norway)

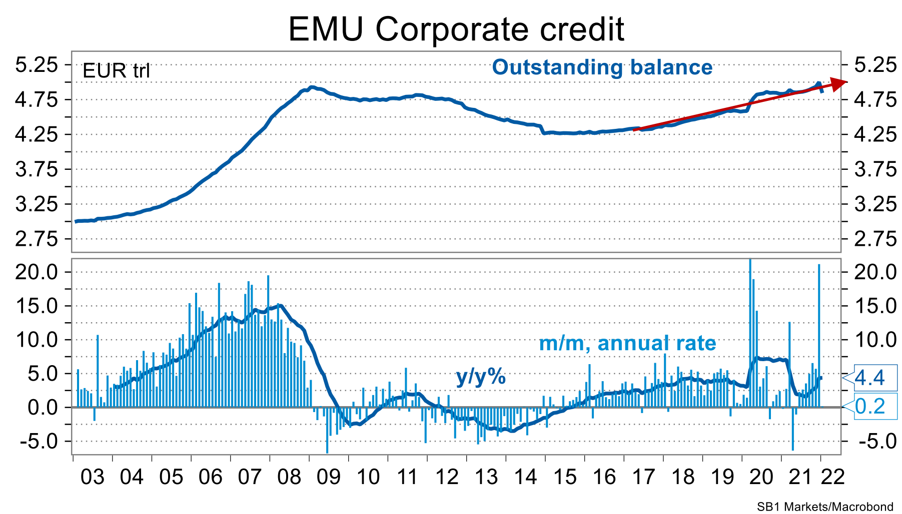
SpareBank 1 MARKETS

Credit growth is slowly accelerating?

Household debt growth is approaching 5% (underlying), businesses are taking on somewhat more too



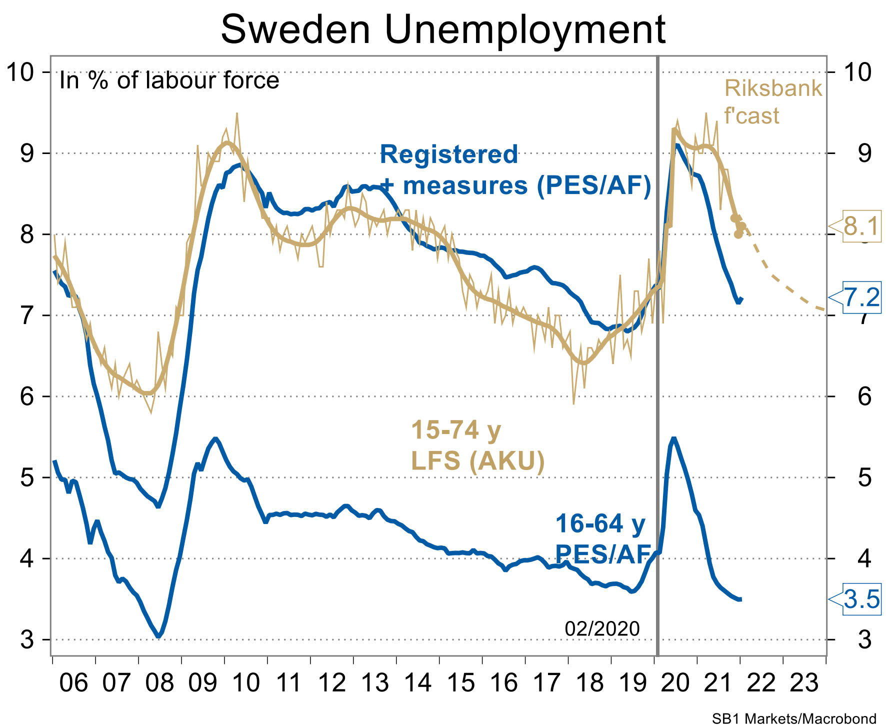


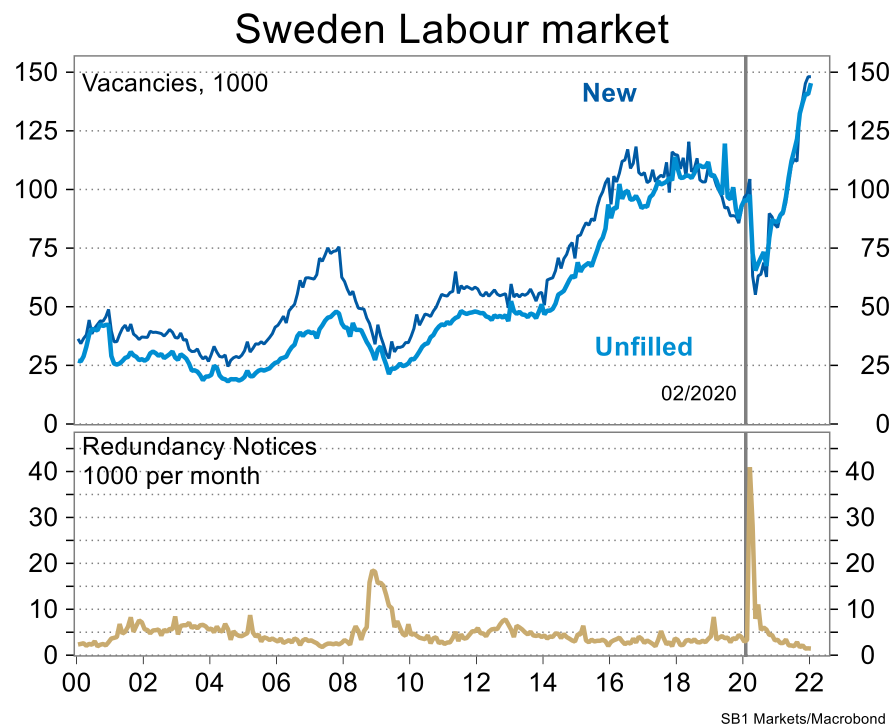


- The corporate debt level close to the pre-pandemic trend growth path. Following strong growth in December, no additional credit in January – but underlying growth has been accelerating recent months
  - » The credit volume is not higher than in 2008 in nominal terms – and sharply down in real terms or in % of GDP

Unemployment is heading down, as vacancies are soaring

The LFS unemployment fell by 0.3 pp to 8.0%, still 0.9 pp above the pre-pandemic level

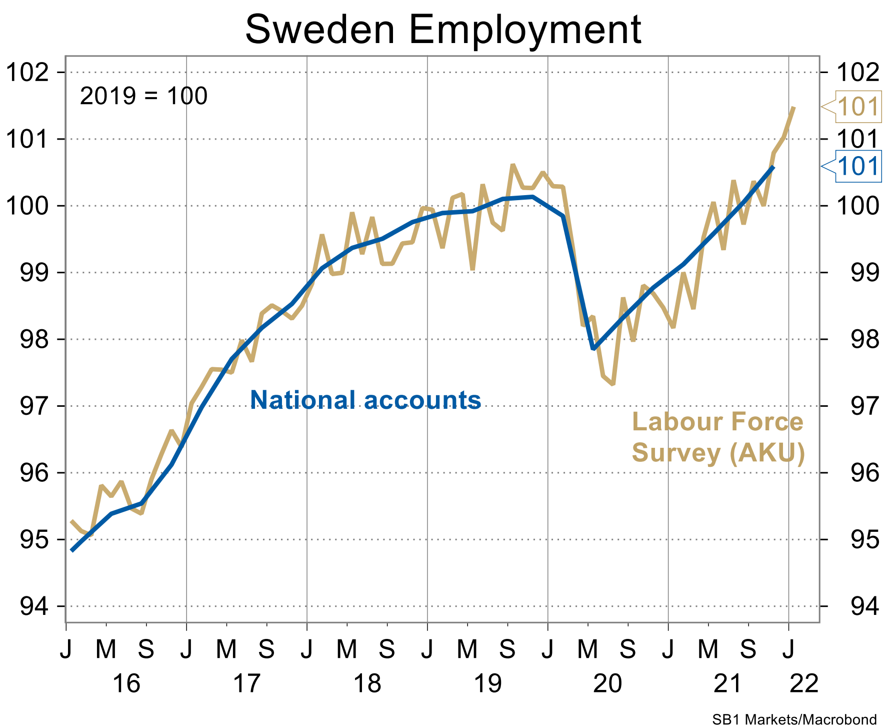


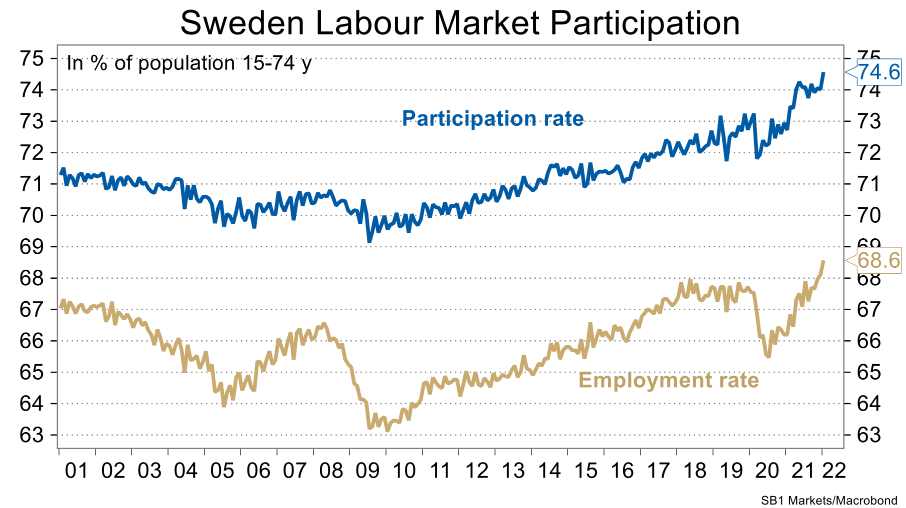


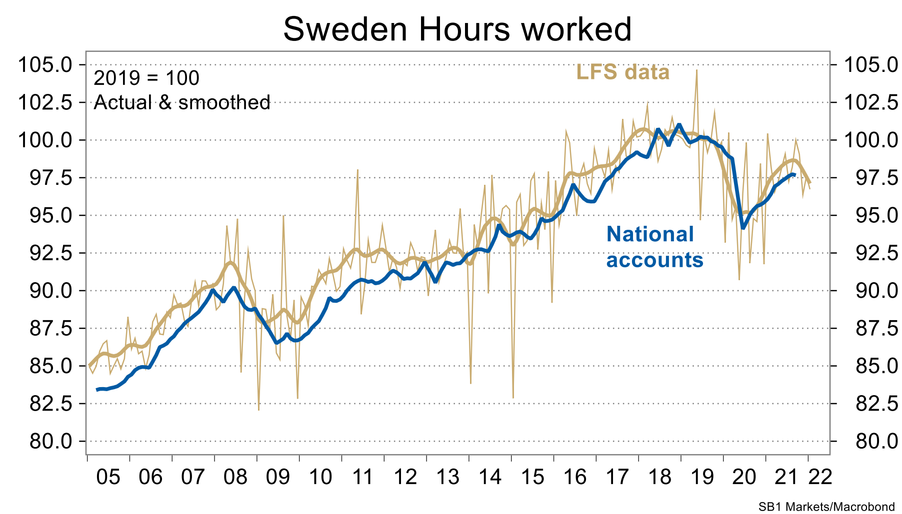
- The **LFS (AKU) unemployment rose 0.1 p to 8.1%** in January, expected unch. Unemployment is down 1%+ from the peak early 2021 but it remains 1.3 pp higher than in early 2020, and the trend is down
- **Registered 'open' unemployment** (PES/AF) has fallen rapidly since last June 2020 but at a slower pace the recent months, and remained at 3.5% in January. Registered unemployment is <u>below</u> the 4.1% pre-pandemic level
  - » **Incl. labour market measures**, PES/AF unemployment is falling too
- The number of **new vacancies** and **unfilled vacancies** rose further in January, <u>up to another ATHs</u>! **Layoffs** were further down in Dec.

Both the participation & the employment rate revised up – and soared in Jan

Finally, the SCB has revised some of the LFS data (SSB did one year ago), strong growth reported!



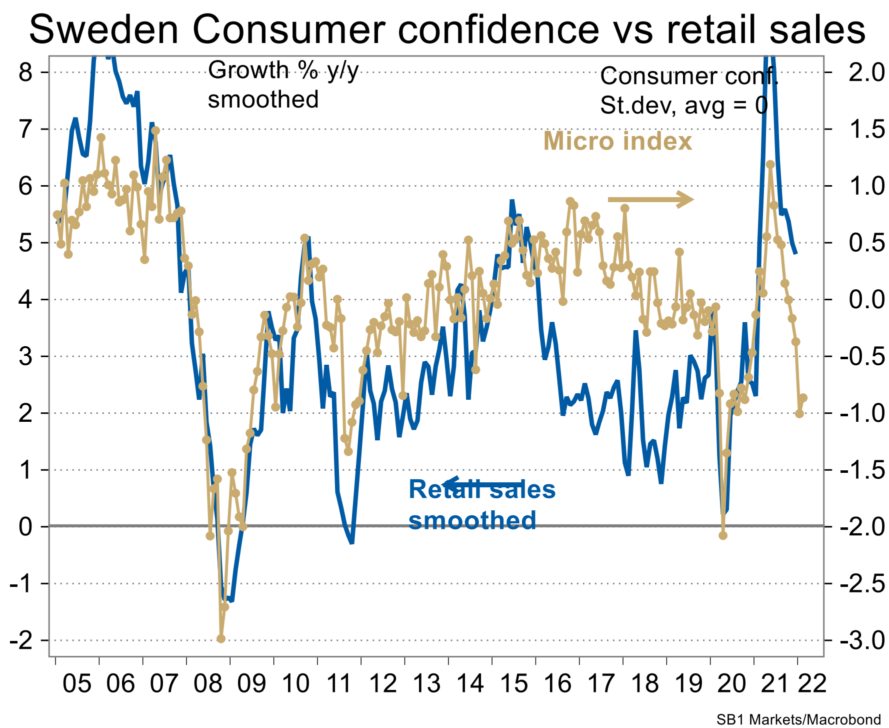


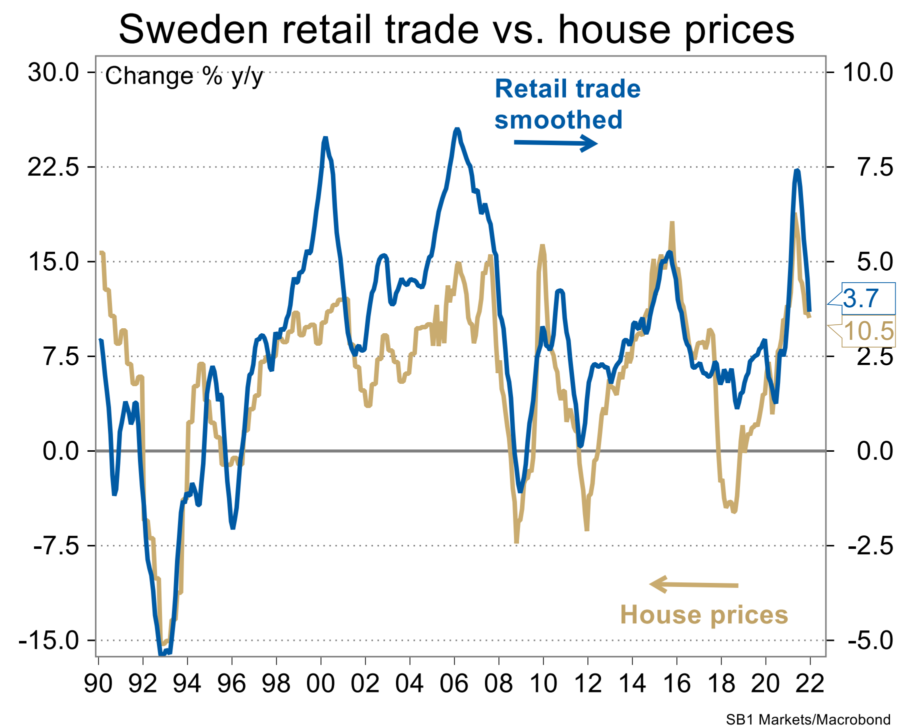


- Employment last year was revised up by 1%, and in Jan employment rose by 0.5% - and the level is 1.5% above the 2019 average level (volatile data)
- The employment rate was revised up by 0.8 pp, and rose sharply in Jan – up to highest level in 2 decades (monthly data available)
- The **participation rate** was also revised sharply up – and the Jan level is at ATH
- **Hours worked** has recovered substantially but has slowed recent months and the level is still down 2.5% vs the pre-pandemic level

Consumer confidence slightly up in February; The level remains low

Virus fatigue? Electricity prices? Quite likely. The economy is OK, but growth may be peaking

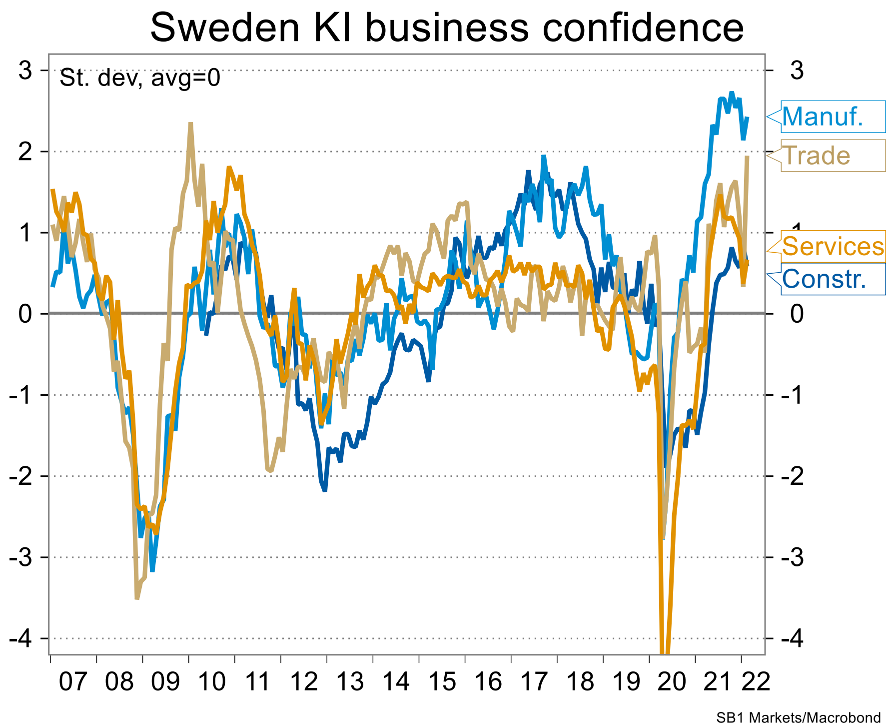


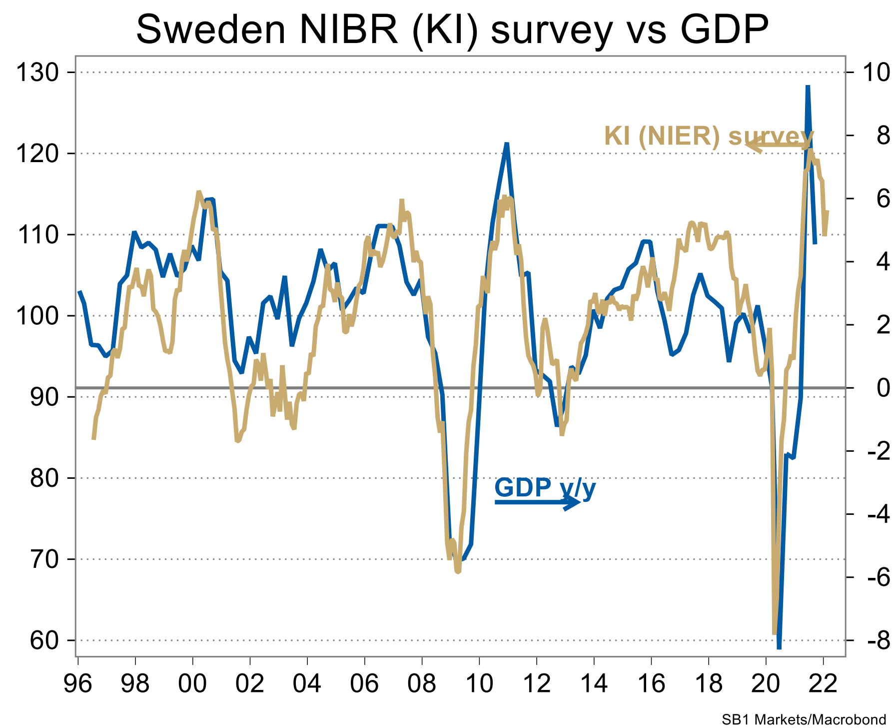


- **Confidence** is slightly below the pre-pandemic level – after being well above during most of last year. The level is low,
- Since 2015, the correlation between stated confidence and actual spending has waned. Even so, since 2020, the relationship may have strengthened again. <u>The confidence level does not suggest a setback in household demand, neither does the housing market</u>

KI business survey up in February, almost 6% growth signalled

Retail trade contributed the most at the upside but manufacturing and services report higher growth

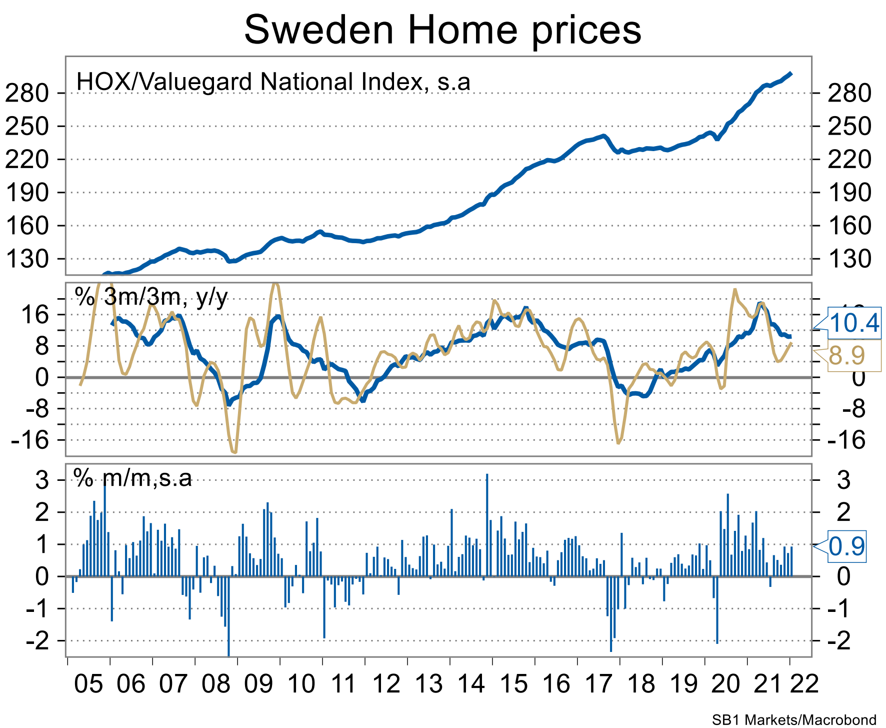


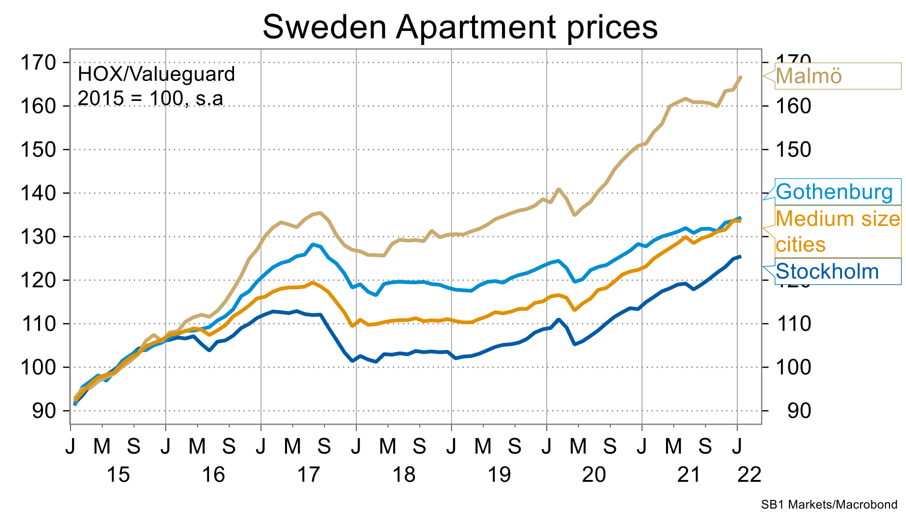


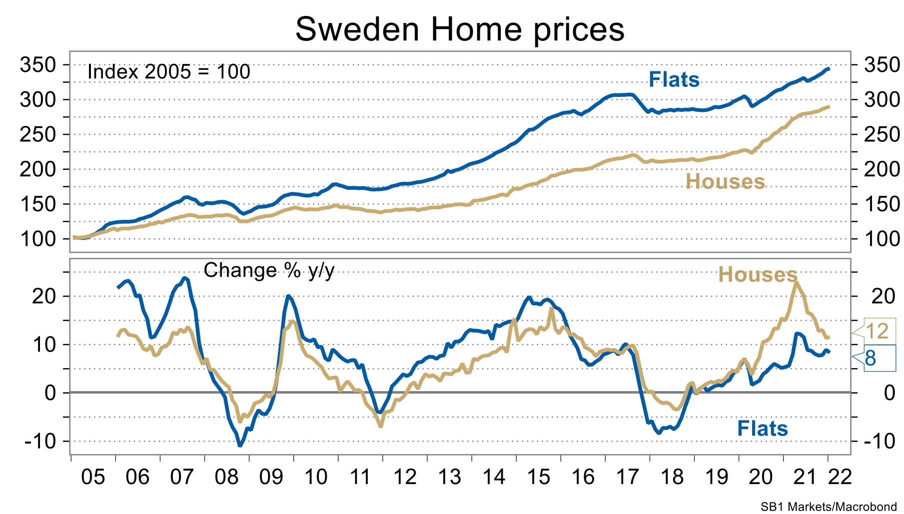
- **The composite index** still signals close to a 6% GDP growth rate, well below the 7 – 8% growth signalled until the 'weak' January
- **All 4 main sub-sectors** are reporting growth far above average, and just the construction index slowed in February
- The **Riksbank** is still concerned about the impact of the corona crisis, and thinks it will keep the policy rate at zero until H2 2024 (at not in Q4 2024 as was signalled before the last meeting)

Swedish house prices are accelerating again, prices up 0.9% m/m in January

The annual price growth has fallen to 10%, from the peak at 19%



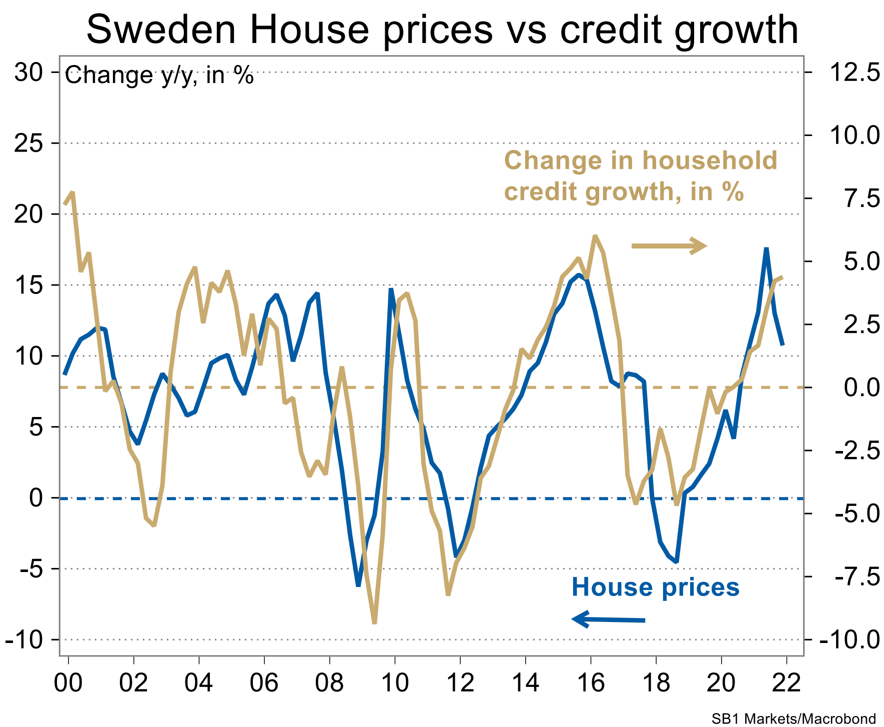


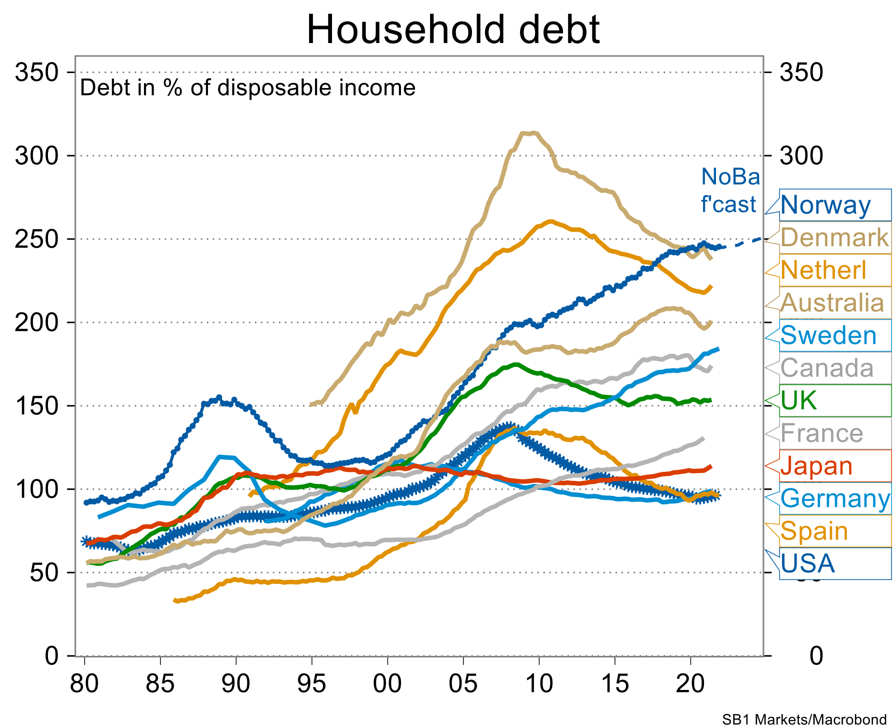


- The annual price inflation gained 0.1 pp to 10.4% in January. That is well below the 19% rate recorded in last April but still a decent figure
  - » The underlying price growth (3m/3m) has gained speed the past three months, and is approaching 9%, from 4% in October
- Malmö has reported a rapid price appreciation since October but price are drifting upwards in the all three main city regions
- From the peak, house price inflation has slowed more than flat prices, reversing some of the opposite movement last year but houses are still up 12% y/y, flats 8%

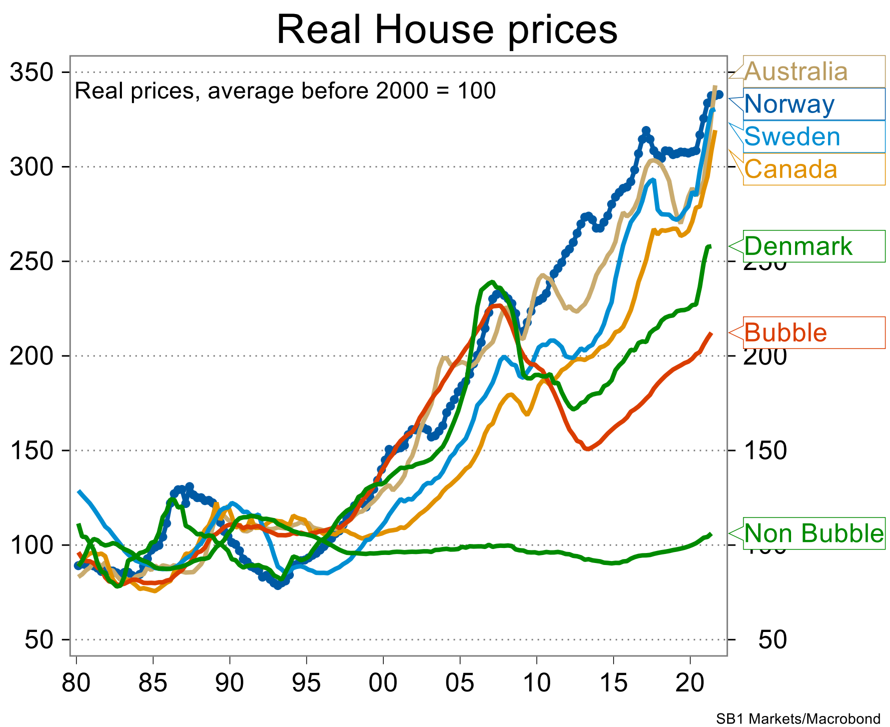
Credit growth is accelerating rapidly – and will for still a while

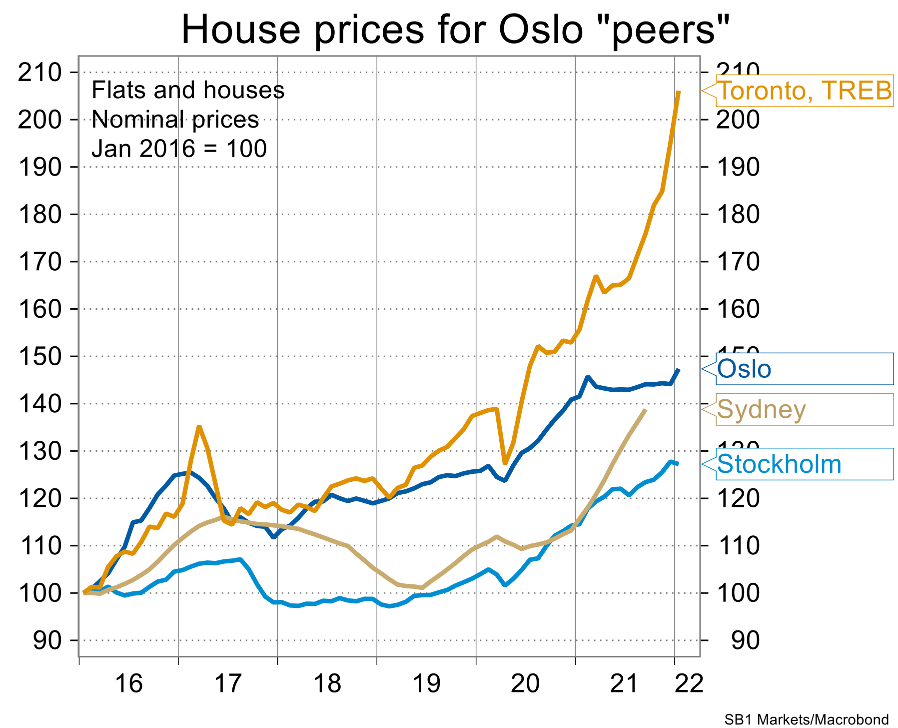
… and more than in any other rich country, without cuts in (record low) mortgage rates





Zero-interest rates have been just wonderful!

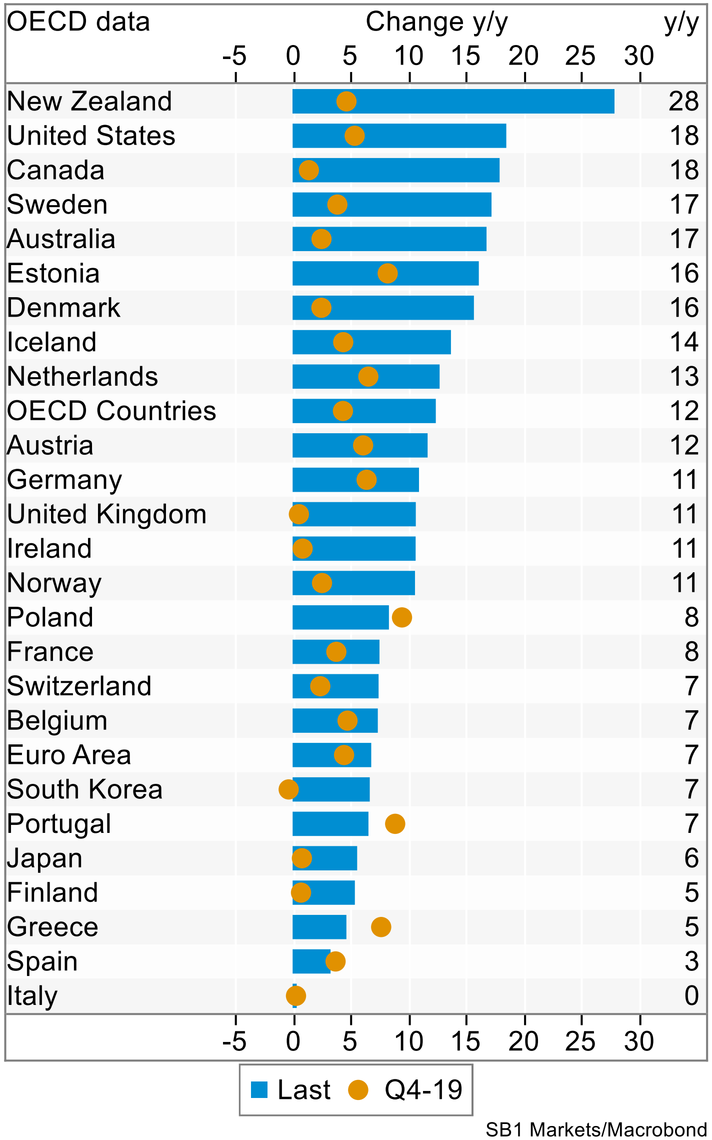




- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Home prices in the capitals in these countries are mixed recent months, as Oslo and Toronto have taken a break – but Sydney is probably still on the way up
- Other countries are following, like Denmark, New Zealand, US (check next page)

House prices up everywhere, and have accelerated in 21 of 26 countries

House prices



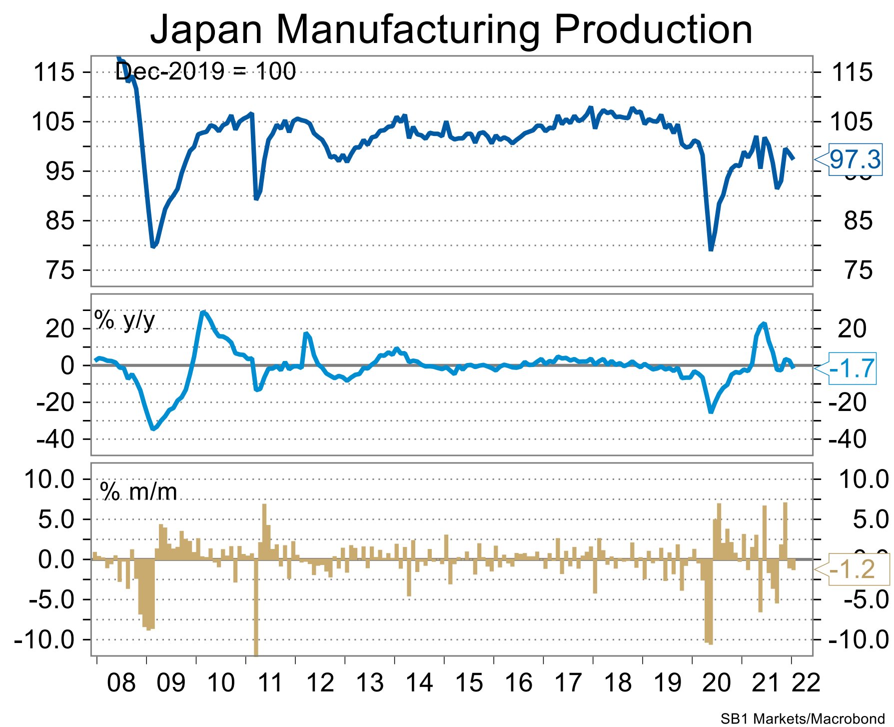
Sweden (was) close to the top of the list

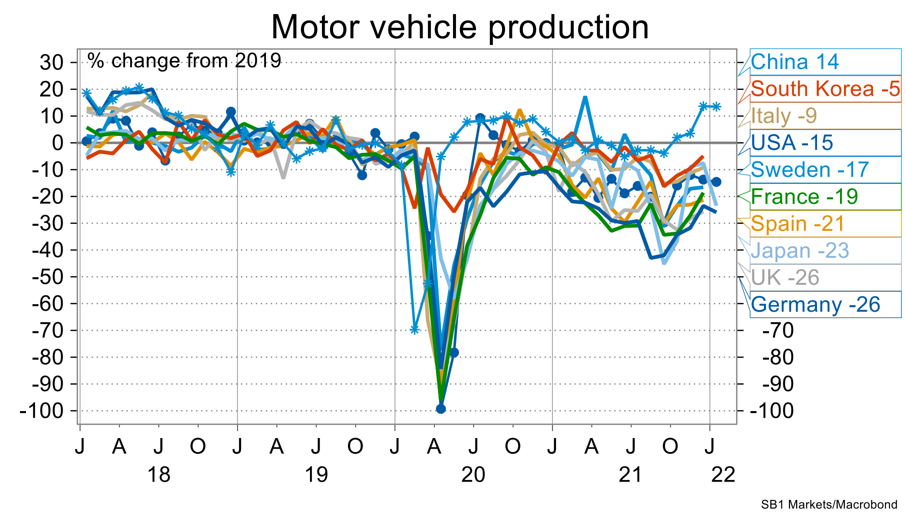
- The average price appreciation in the OEDC area was 12% in Q2, up from a 4% before the pandemic
  - » 22 of 27 countries/regions report an acceleration in house prices since before the pandemic, 3 countries a slowdown
- New Zealand, Canada, Australia, Sweden, USA, and Denmark have reported the steepest acceleration vs. pre-corona growth rates
  - » Sweden reported 17% in Q2, now the growth rate has fallen to 11%
- Price inflation has slowed the most in Greece, for good reasons – the tourist country has been through a harsh downturn. The house markets in Spain and Portugal have been hurting, for the same reason

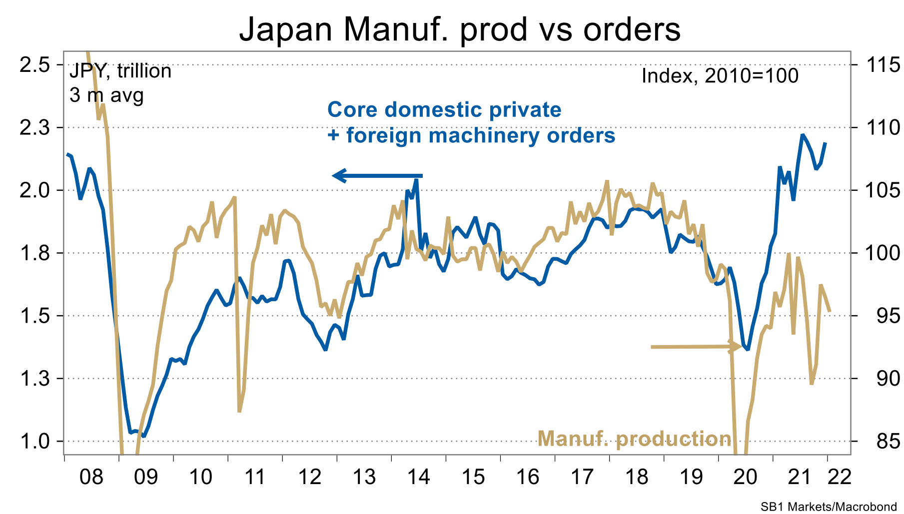
OECD quarterly data, the last quarter Q2 or Q3-21

Manufacturing production down 1.2 m/m in January, expected -0.7%

Production is 2.7% below a low level in Dec-19 – which was not that impressive



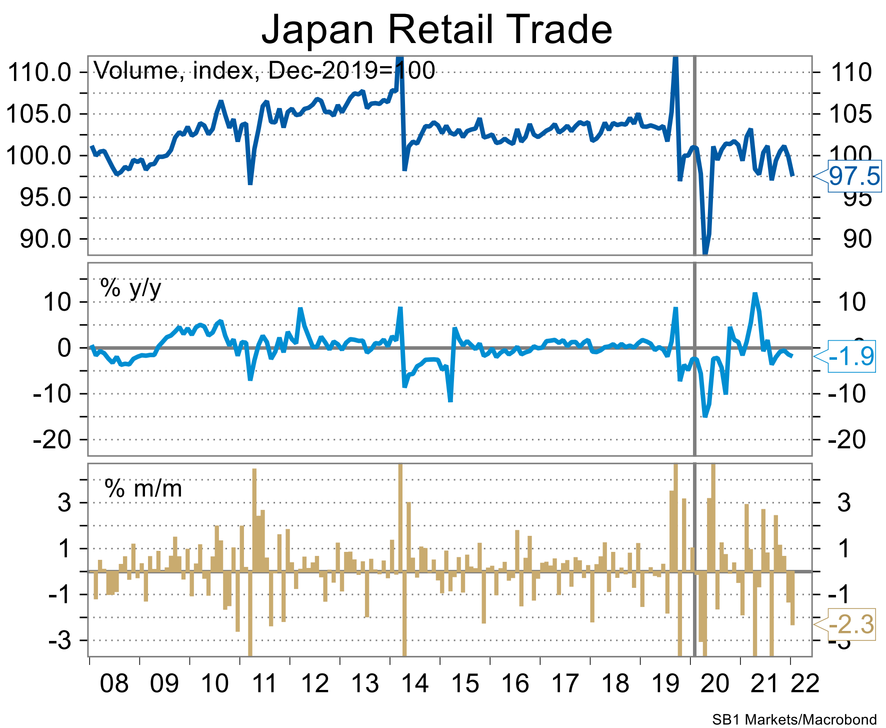


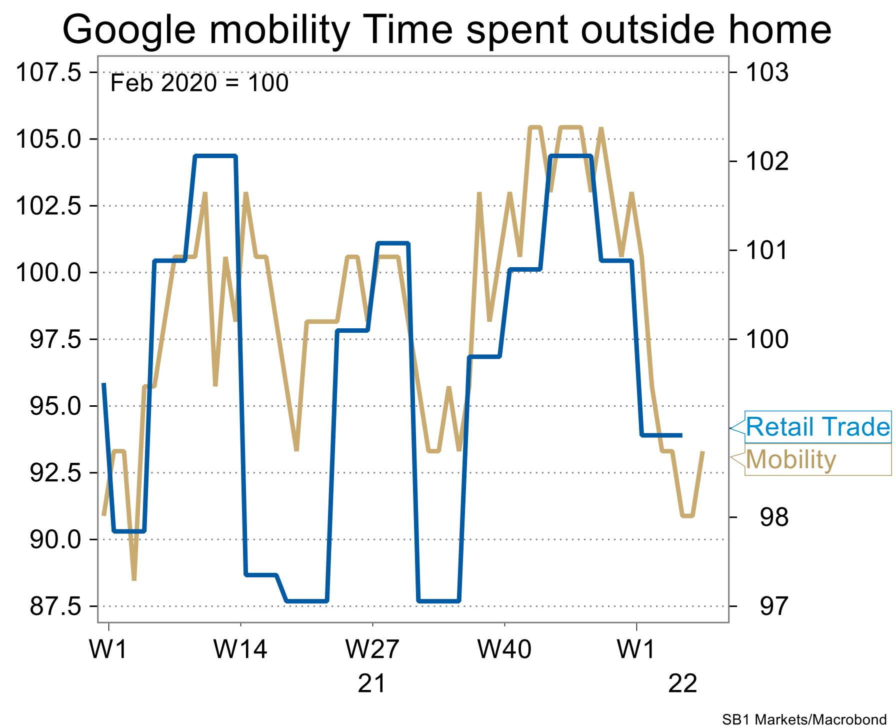


- **Motor vehicle production** is still very volatile – it has fell sharply in January, to 23% below the 2019 level in January , from -8% in December
- **Overall order inflow** has strengthened substantially through 2021, and signals a much higher production level than the present

Retail sales further down 2.3% in January, Omicron is still around

Sales are 2.5% below the weak pre-pandemic level

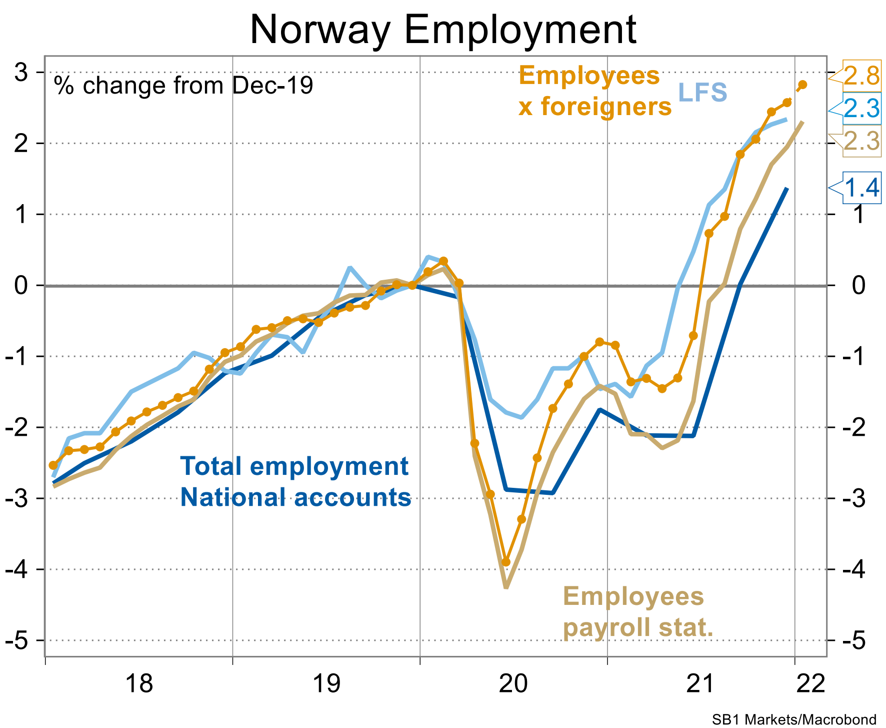




- **Mobility** has fallen sharply recent months, and February was not much better
- Sales were expected down 2% m/m in January

Payrolls up 0.4% in January – level up 2.3% from Feb-19

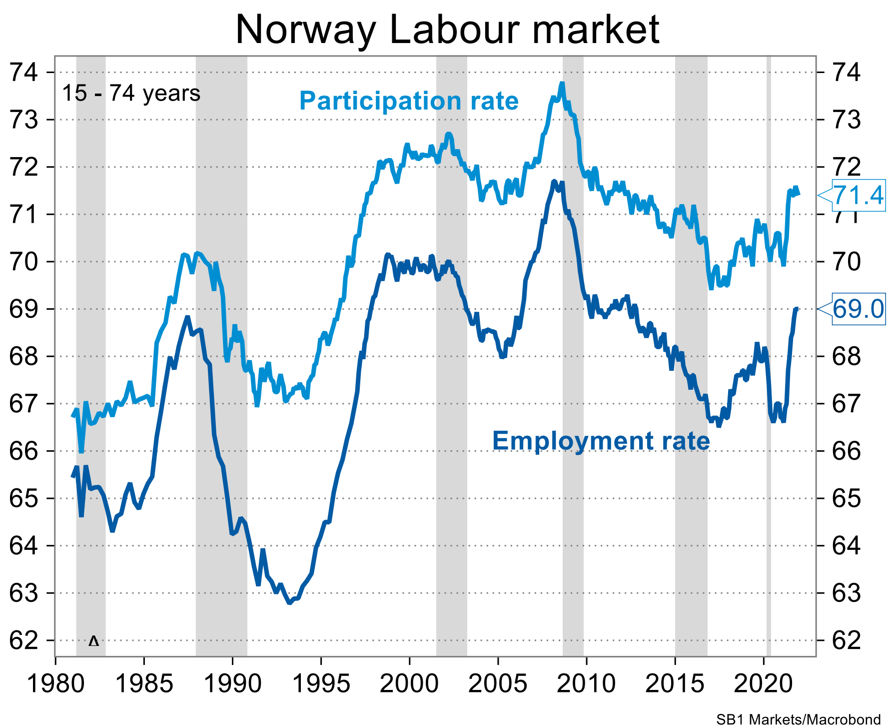
The no of employees up approx. 2.8% among persons living in Norway. The LFS confirms strong growth



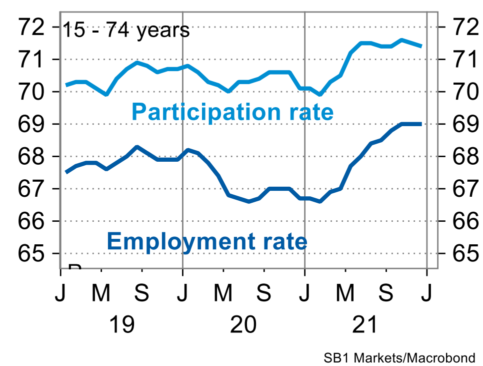
- The increase in the **register-based no. of employees** in January in spite of the Omicron restrictions confirm decent underlying growth in the Mainland economy
  - » The reference period is the week containing the 16th in months. Stricter corona restrictions were imposed by the mid of December but even so, the no. of employees grew in January too – even if some jobs were cut in restaurants & hotels
  - » Payrolls grew by 0.4% m/m, up from 0.3% in Dec – and by 2.3% vs. Feb-19
  - » We estimate the no. of employees among permanent residents (Norwegian and foreign born) to be 2.8% above the pre-pandemic level (based on our estimate of foreign workers in January, data published just quarterly)
  - » Growth is slowing but just slowly – and 0.3 – 0.4% m/m is far above the long run growth potential at well below 0.1% per month
  - » The increase in employment is broad based, check 2 pages fwd
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported a 2' (0.1%) growth in employment in Dec (avg Nov-Jan from avg Oct – Dec), and by 13' over the past 3 months, equalling a 3.0% annualised pace
  - » LFS employment is up 2.3% since before the pandemic, and both participation and employment rates are far above the pre-pandemic level – and the LFS unemployment rate has 'collapsed'
- **National Accounts** reported a 1.4% growth in total employment in Q4 (5.5% annualised) – and the level is up 1.4% vs. Q4-19. These NA data includes foreigners on short-term stay

The participation rate has flattened, at a much higher level than we assumed

No further lift since last summer signals that the reserve is already engaged, no spare capacity left

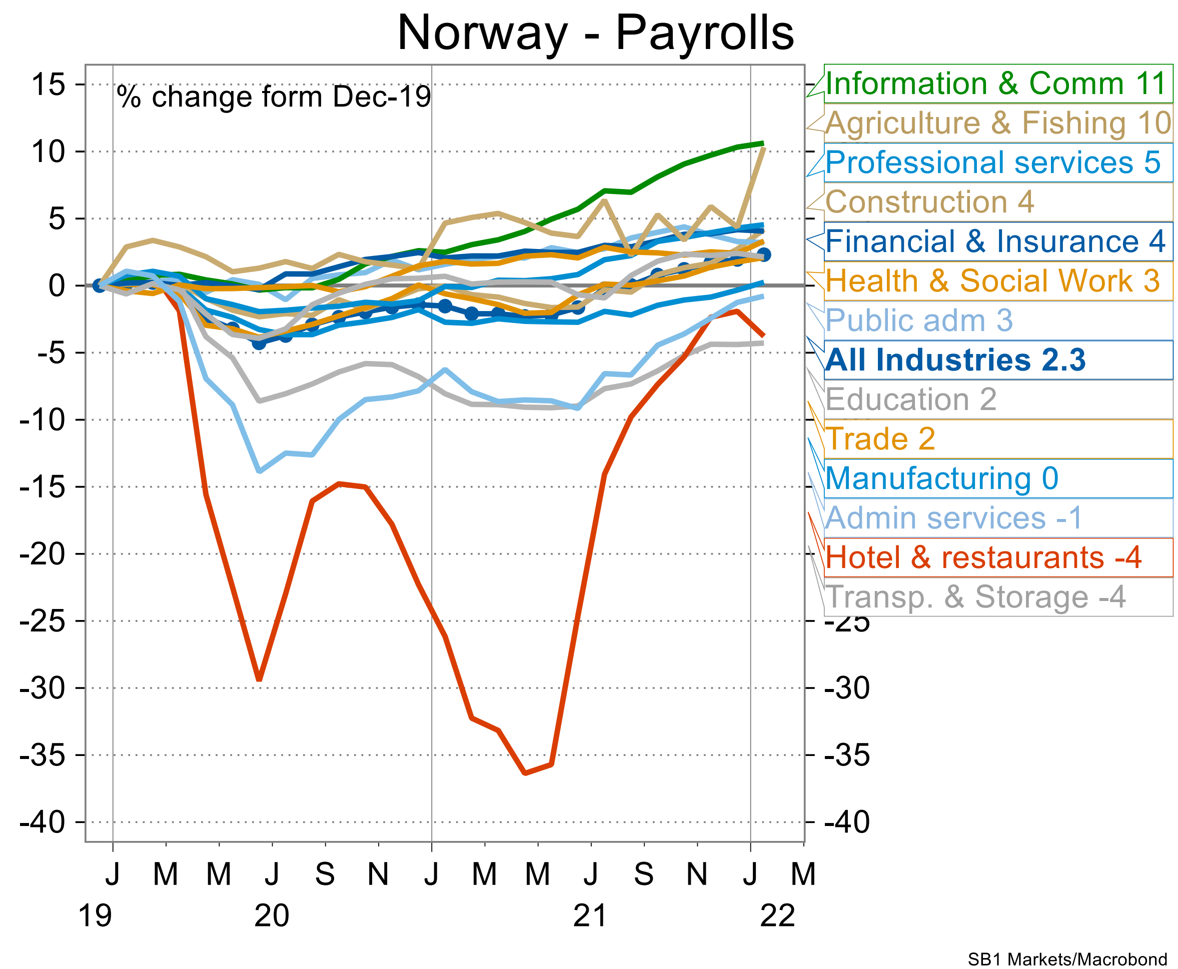


- **The employment rate** was flat in December, at 69.0%
  - » Ahead of the pandemic the rate was 68.1 – 68.2, and it is up from the 66.4 through in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - » The employment rate is the highest since 2012
- **The participation rate** is also well above the pre-pandemic level but it has more or less flattened at 71.5% since last June – and fell to 71.4% in December. The participation rate is also at the highest level since 2012
- These monthly data are volatile but the flattening of the participation rate since the early summer even if demand for labour is still increasing <u>may indicate that the easy part of 're-engagement' is behind us</u>
- **Working age population** growth is 0.6% over the last year (Q4 est), in line with the moderate growth ahead of the pandemic

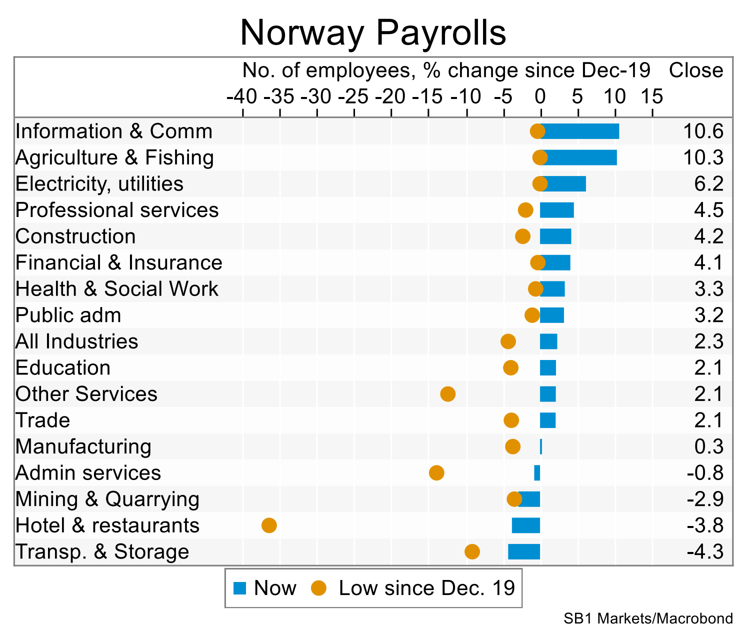


Almost all sectors employ more people than before the pandemic

A small decline in hotels and restaurants in January. But the sign has change by now ☺

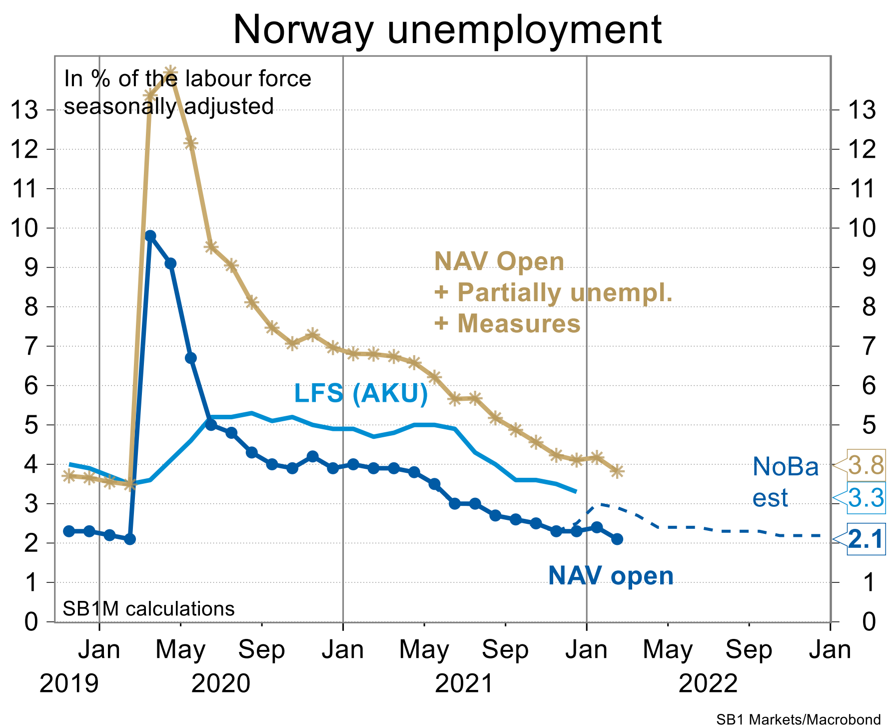


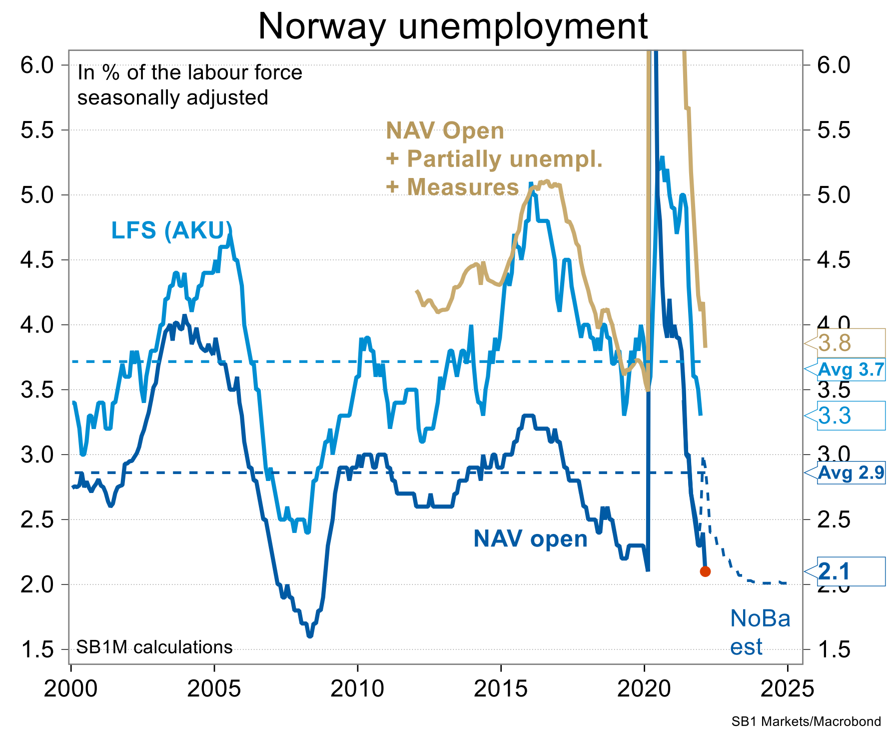
- Strong growth in most sectors



Unemployment fell much more than expected in Feb, new vacancies up to ATH

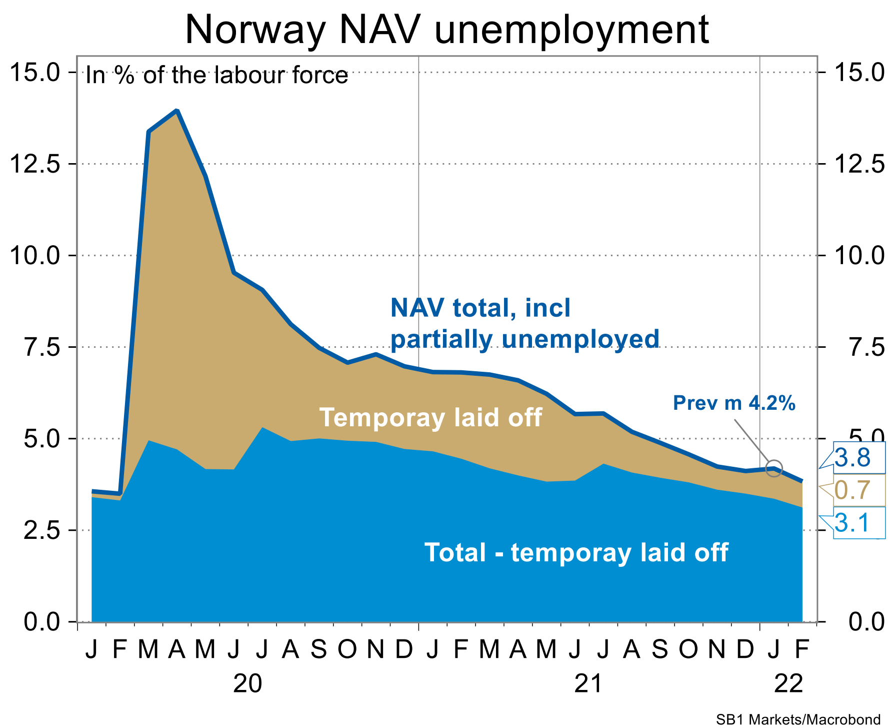
NAV unemploym. fell by 0.3pp to 2.1%, 0.8 pp below NoBa's f'cast. The LFS rate -0.2 pp to 3.3%!

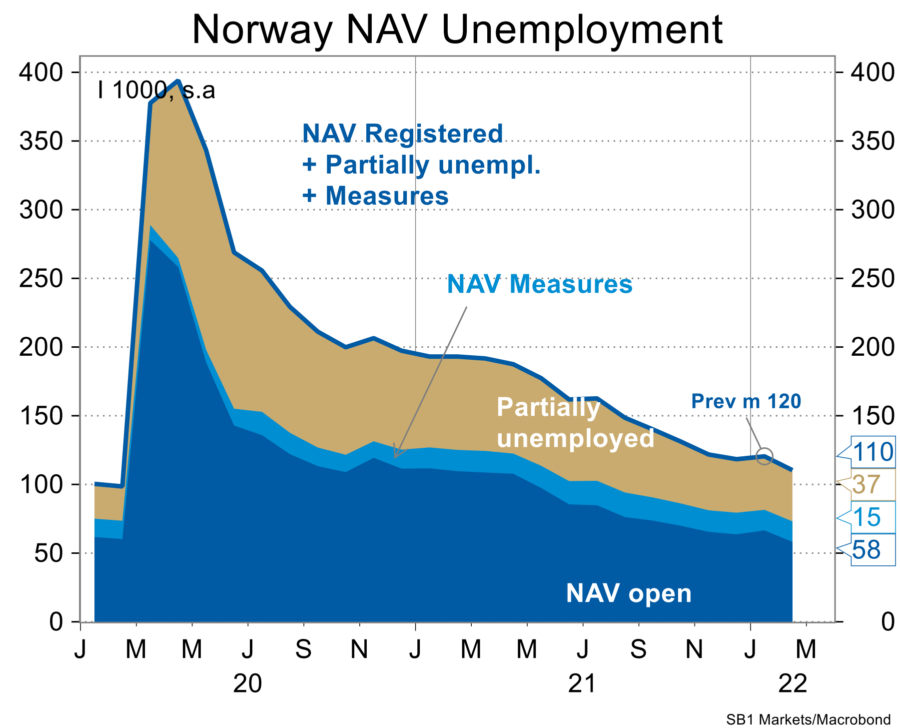




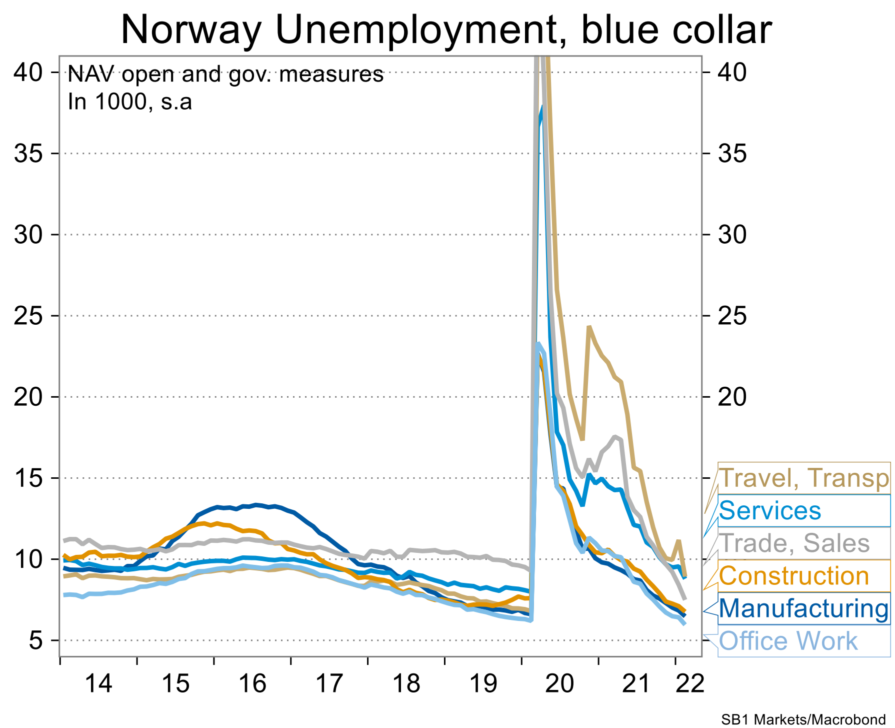
- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 8.4' persons in Feb (seas. adj) to 58' we expected -4' to 63'. The rate declined 0.3 pp to 2.1%, we expected 2.3%. In Dec. NoBa assumed a 2.8% rate in Feb. Unadjusted, the rate fell 0.3 pp to 2.3%, expected 2.4%. The 2.1% rate is well below the 2000 – 2019 avg at 2.9%, and equal to the level in Feb-20 (which was lower than during the months before). Unemployment has not been lower since 2009
- The number of **partially unemployed** (not included in the ordinary unemployment no.) fell by 3' to 37', and including measures, the **total unemployment** fell by 10' to 110', to 10' above the pre-pandemic level. The overall rate fell by 0.4 pp to 3.8%, up from 3.5% in Feb-20
- The inflow of **new job seekers** fell sharply following the transitory uptick in Dec, and the **inflow of new vacancies** rose, up to an ATH
- **The LFS (AKU) unemployment rate** fell to 3.3% in Nov-Dec, from 3.5% a month earlier – expected unchanged!

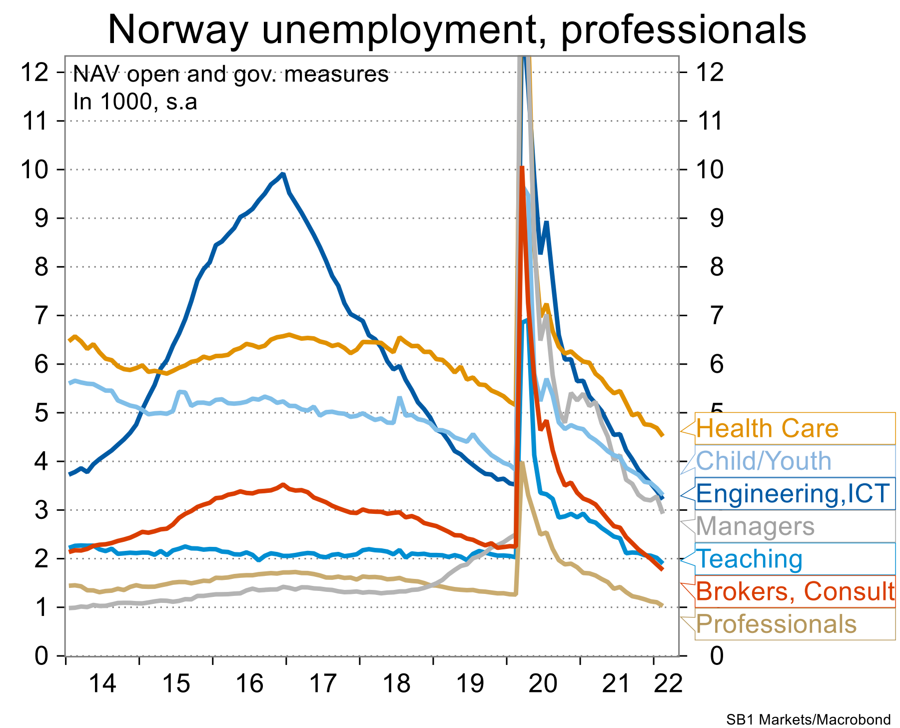
The labour market has weathered the Omicron wave well





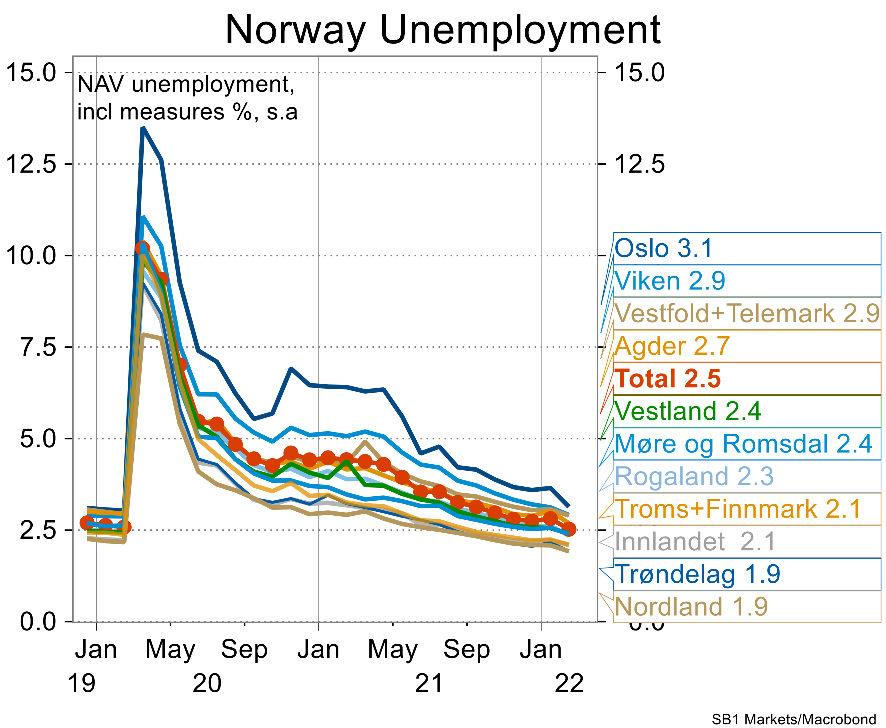
Unemployment is declining for all sorts of labour

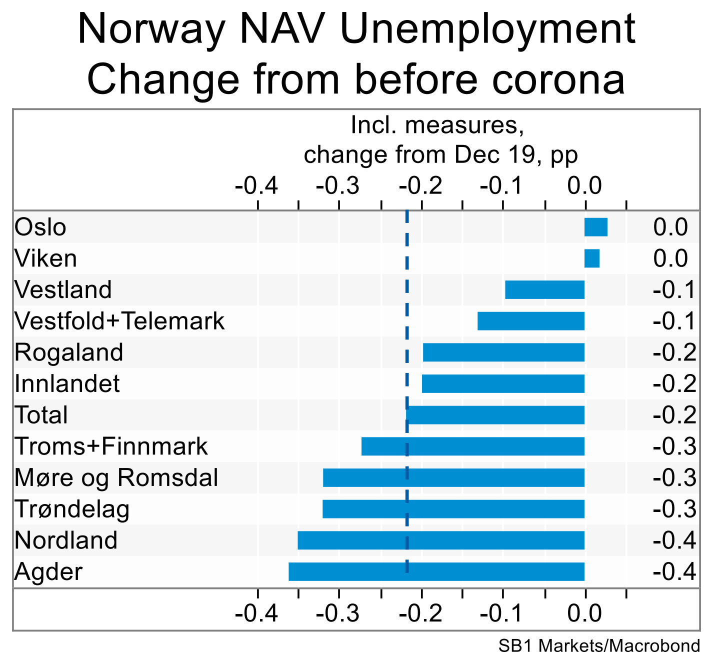




Unemployment (incl. measures) below the pre-pandemic level almost everywhere

Unemployment fell to or below the pre-Omicron declining trend in all counties

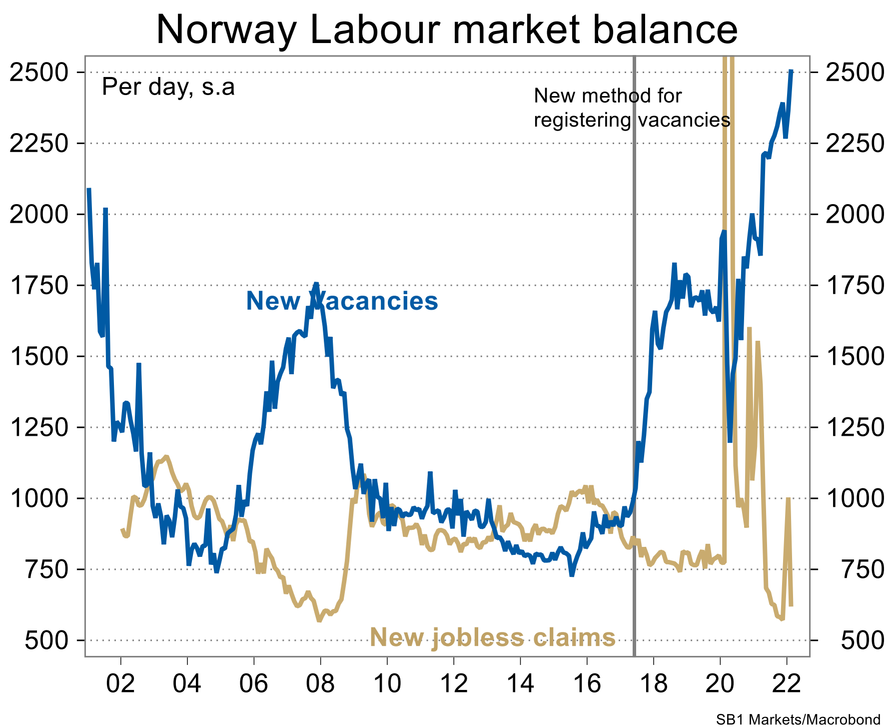


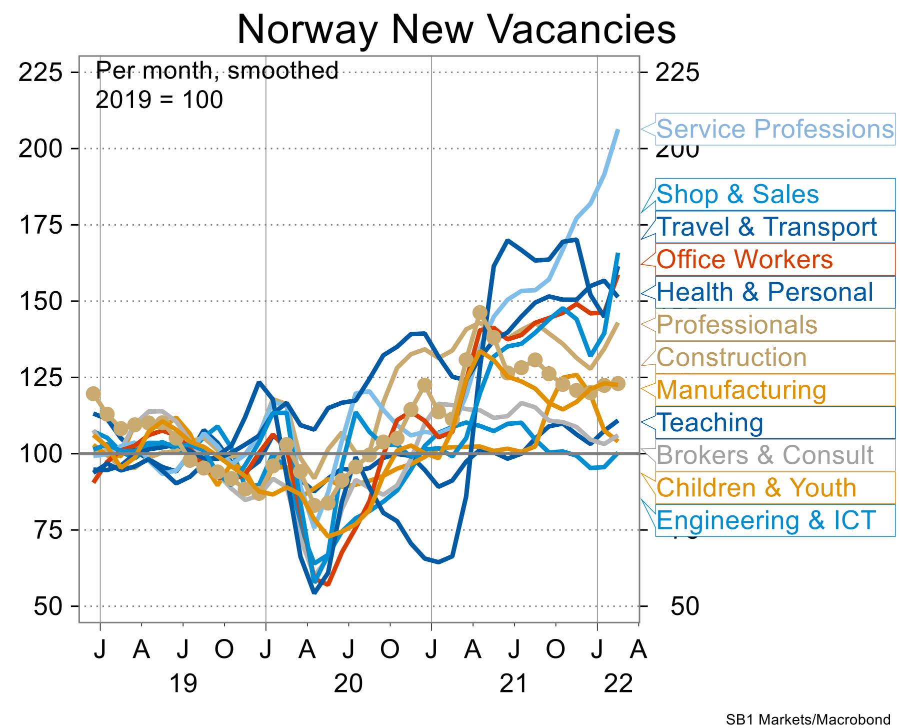


- Just **Viken and Oslo** is still reporting an unemployment rate (marginally) above the level in Feb-20
  - » **Oslo** has by far been the hardest hit county, both due to tighter restrictions and a large service sector – followed by Viken

New vacancies up to an ATH in February

The number of new jobless claims fell to the pre-Omicron extremely low level





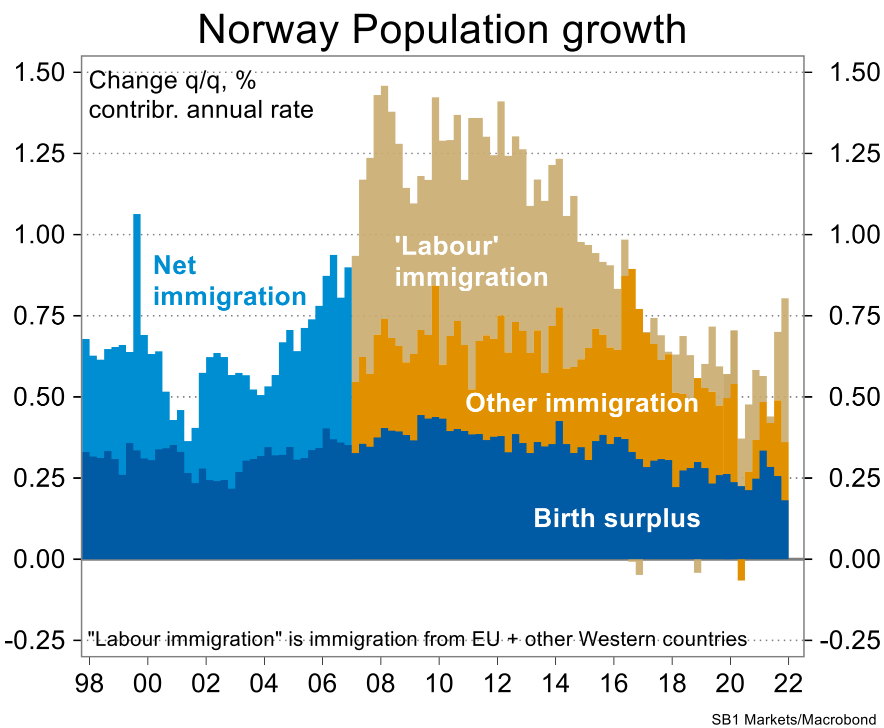
- Most sectors have announced more new vacancies, especially in service professions

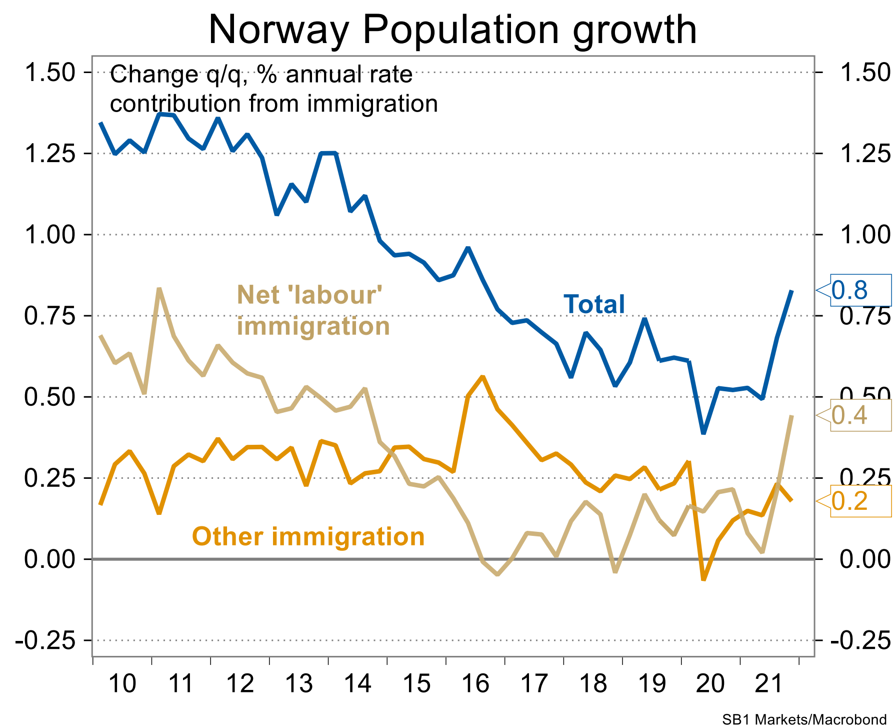
We have made a preliminary adjustment of the 2020 vacancy data due to a NAV reporting error which have led to under reporting of new positions through the year. NAV reports that the no. of new vacancies is at the same level in January 2021 as one year ago

SpareBank 1 MARKETS

Labour immigration picks up steam again

The birth surplus still somewhat higher than normal – but declining

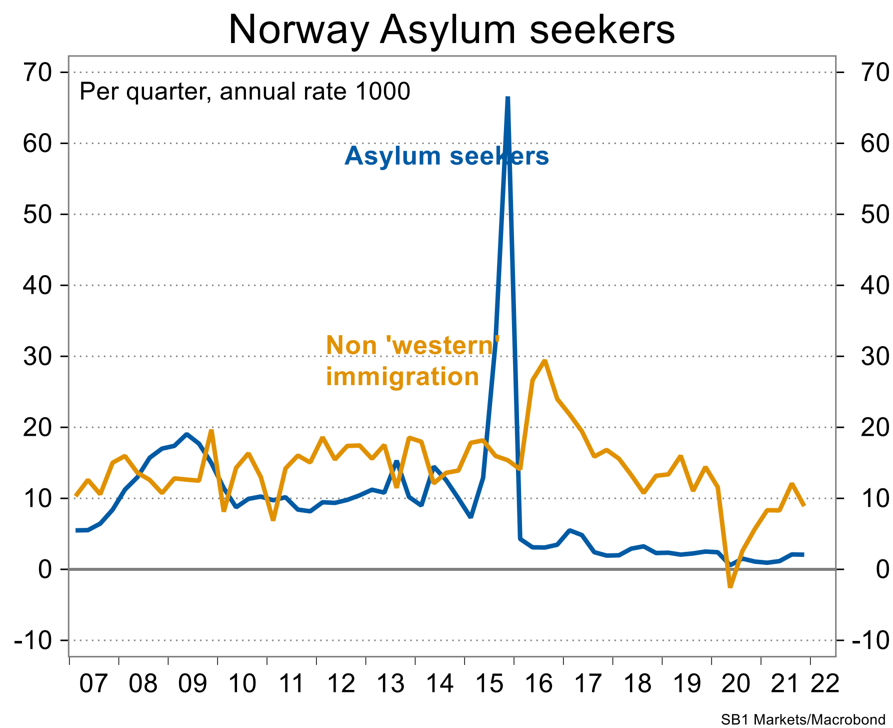


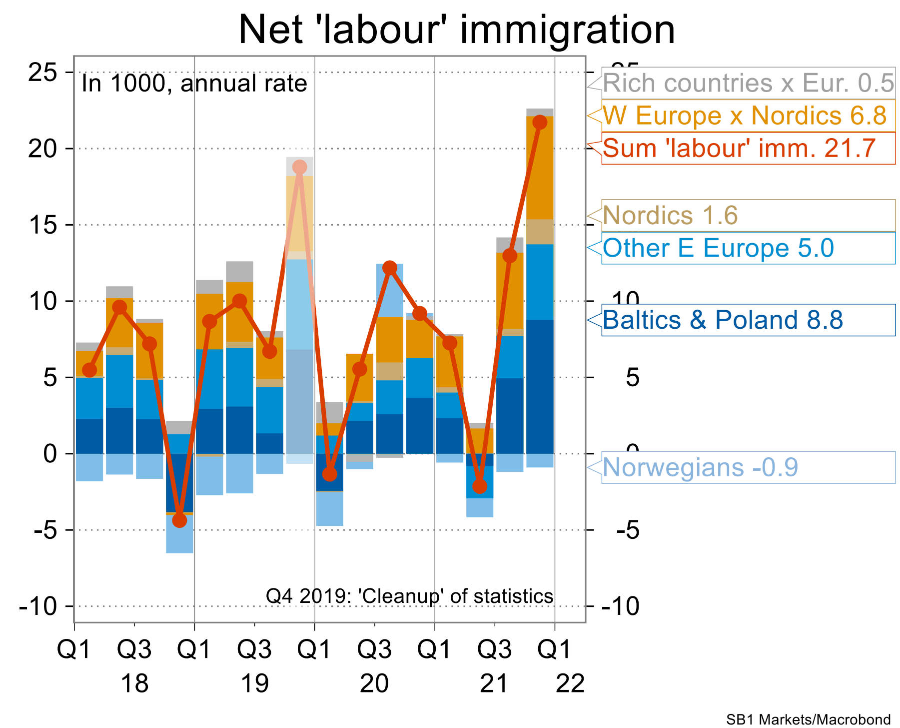


- Total population grew by 11.000 in Q4 (seasonally adj), equalling a 0.8% annualised rate. Last year the population added 34' persons, or by 0.6%
  - » Labour immigration rose further and to well above the level recent years, in fact to the highest level since 2016 – though an extra slow inflow during Q1 & Q2 last year
  - » Other immigration gained remains at a lower level than before the pandemic
  - » The net birth surplus fell to the lowest level ever in Q4 – as the number of deaths rose by 1.500 above a normal level – to the highest level since 1998 (as long as we have quarterly data at hand). The number of births remained at a quite high level (at least compared to the trough in H2 2020)

Labour immigration from rest out Europe recovers

... and more than we assumed. Non-western immigration remains muted

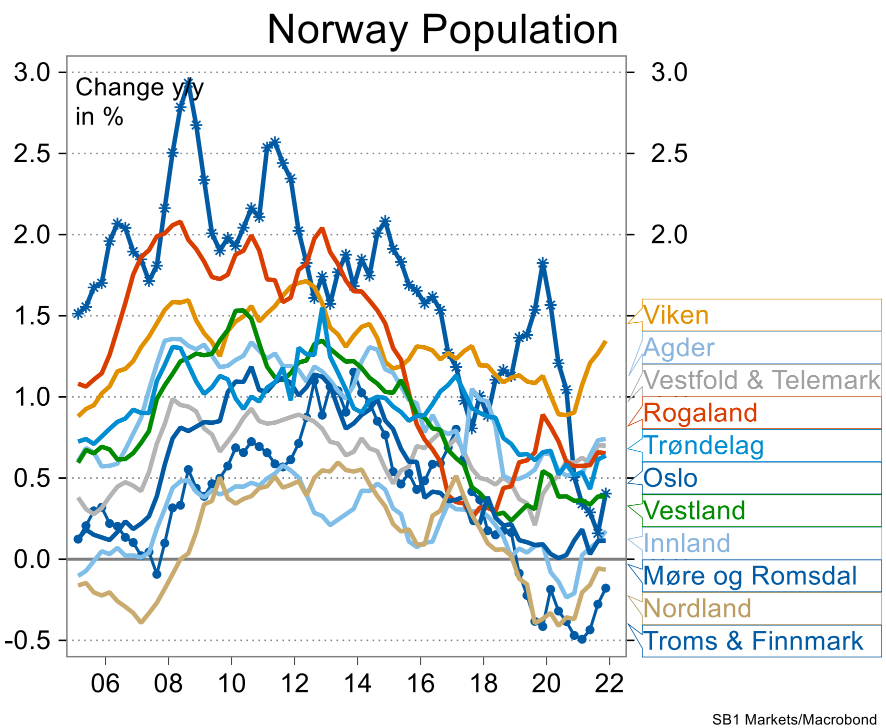


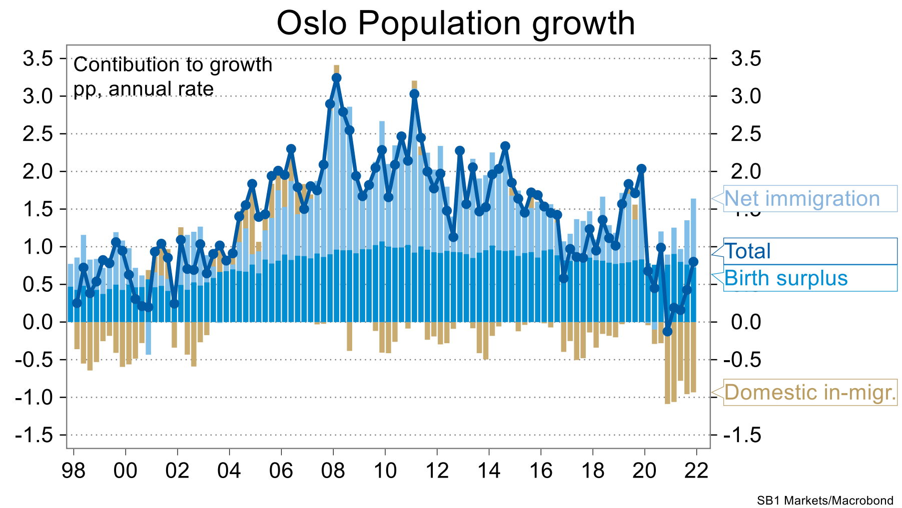


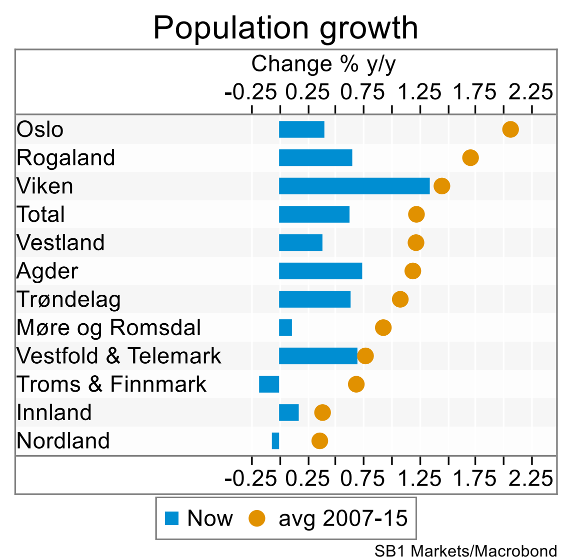
- Growth in non-western immigration fell back to 'normal' before corona, following the 'Syrian' surge in 2016. During the corona quarters, non-western immigration fell to the lowest level 'ever' in 2020. Growth has since picked up, but was down in Q2
- The inflow of asylum seekers has been virtually flat, at a very low level – approx. 1000 in an annual rate
- Net immigration from European countries (which we label 'labour immigration) gained speed in Q3 and even more in Q4

Population growth is gradually accelerating again

…but just Viken and Vestfold & Telemark (almost) back to good ol' days



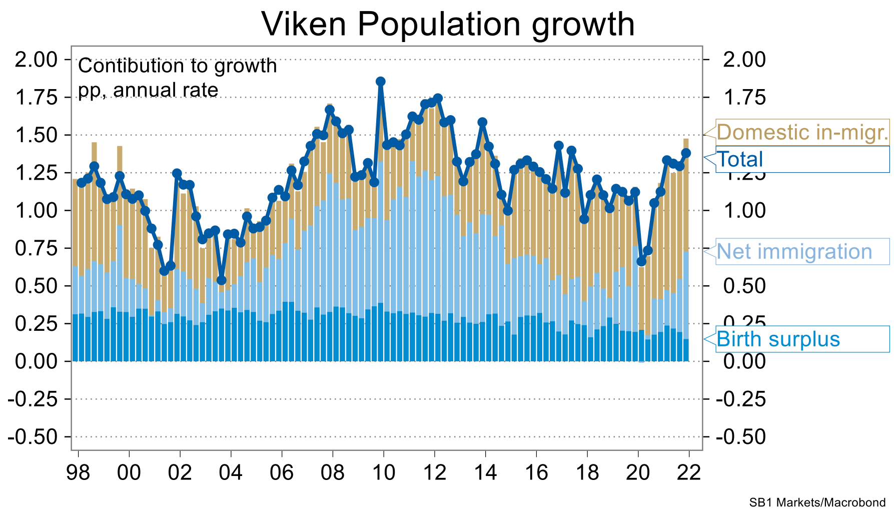


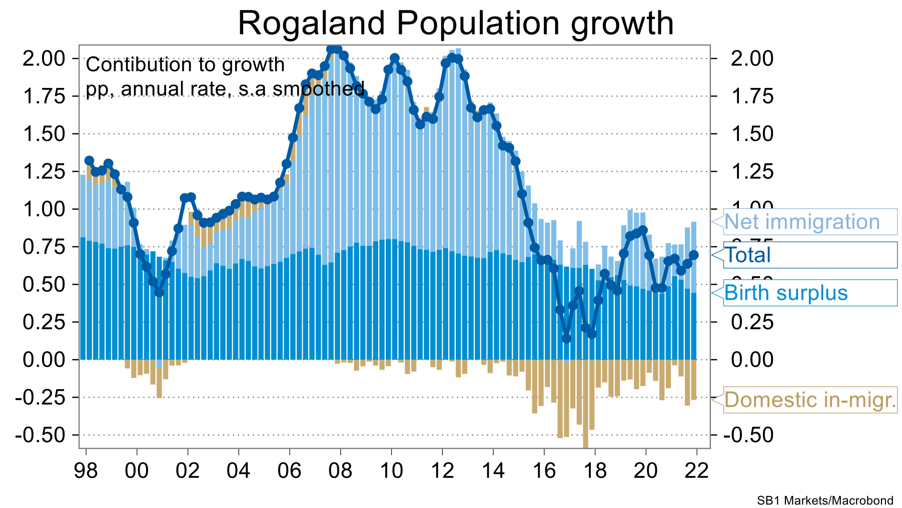


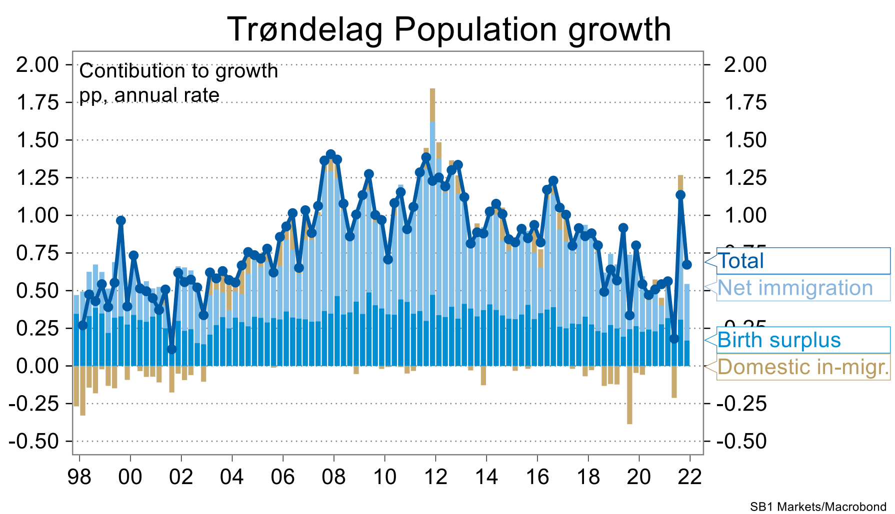
- From 2012/13 until 2018, population growth slowed in most regions – but the least in Viken (Akershus kept up best) and Vestfold & Telemark. Following a mini immigration wave in 2019, growth is slowing sharply in Oslo, mainly due to a substantial net out migration to other parts of Norway (almost at a 1% pace). A corona adjustment?
- Population growth has cooled substantially in all other regions, to well below 2010-2015 levels. Due to accelerated domestic out migration, population growth is close to zero og below in Møre og Romsdal, Innland and Norland, Troms & Finnmark

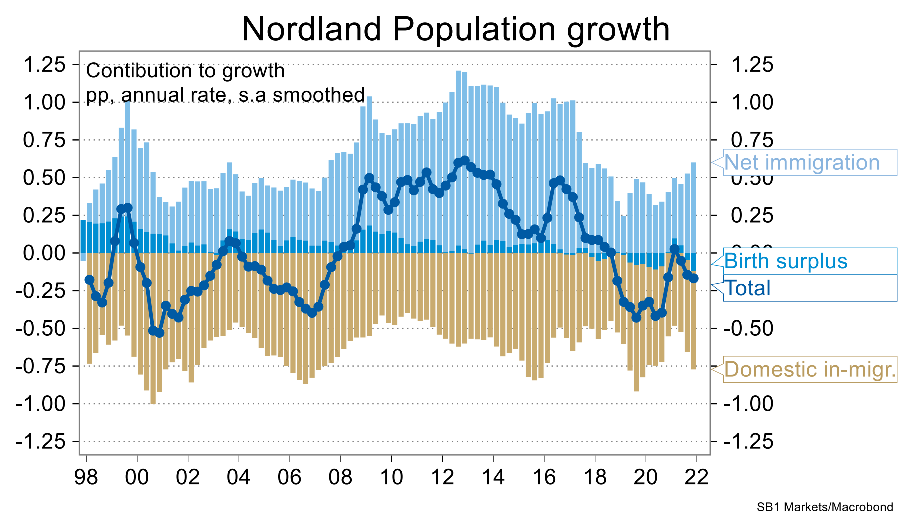
Some serious regional differences

(Sum Oslo & Viken records a substantial net domestic in-migration)



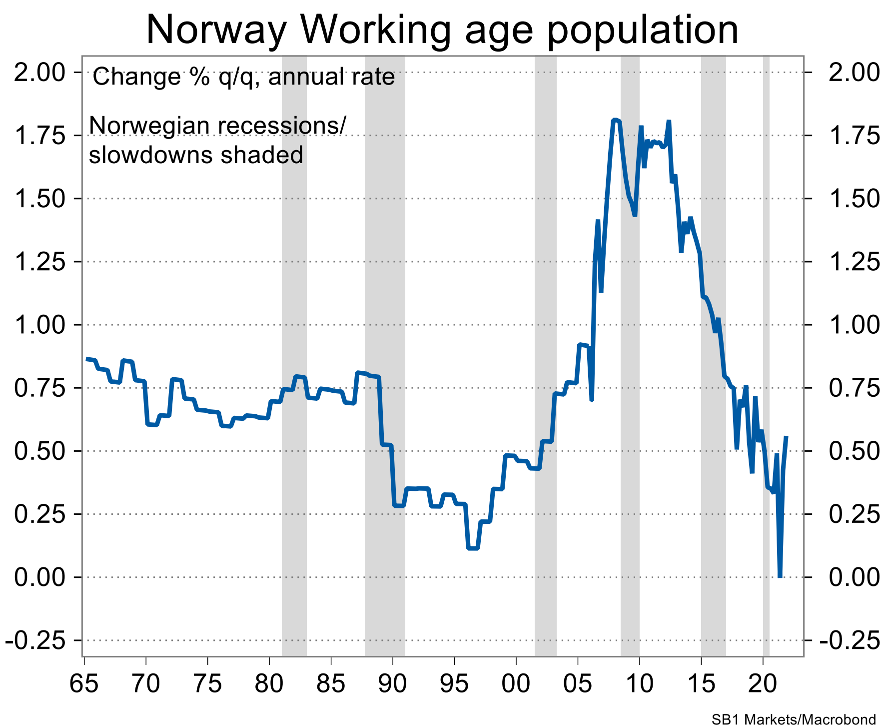


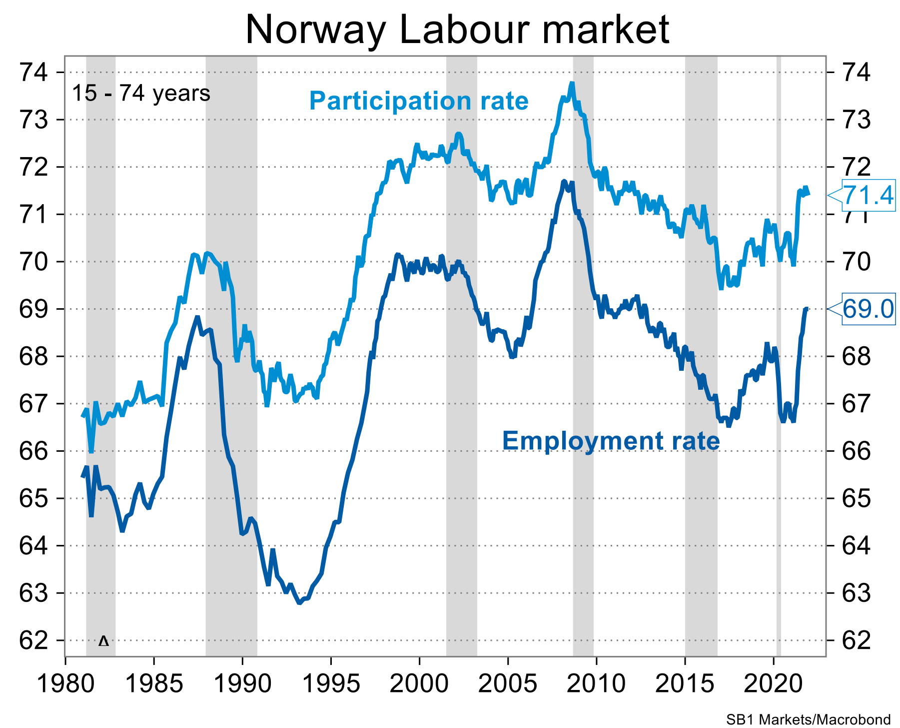




Working age population growth has recovered but is still at low level

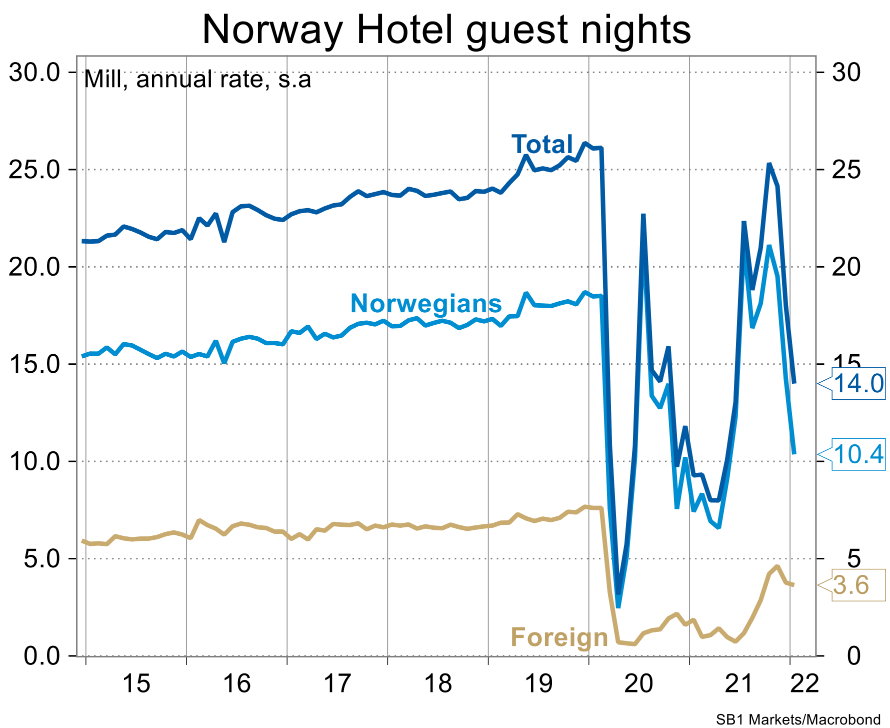
Growth at 0.5% - down from 1¾% few years ago

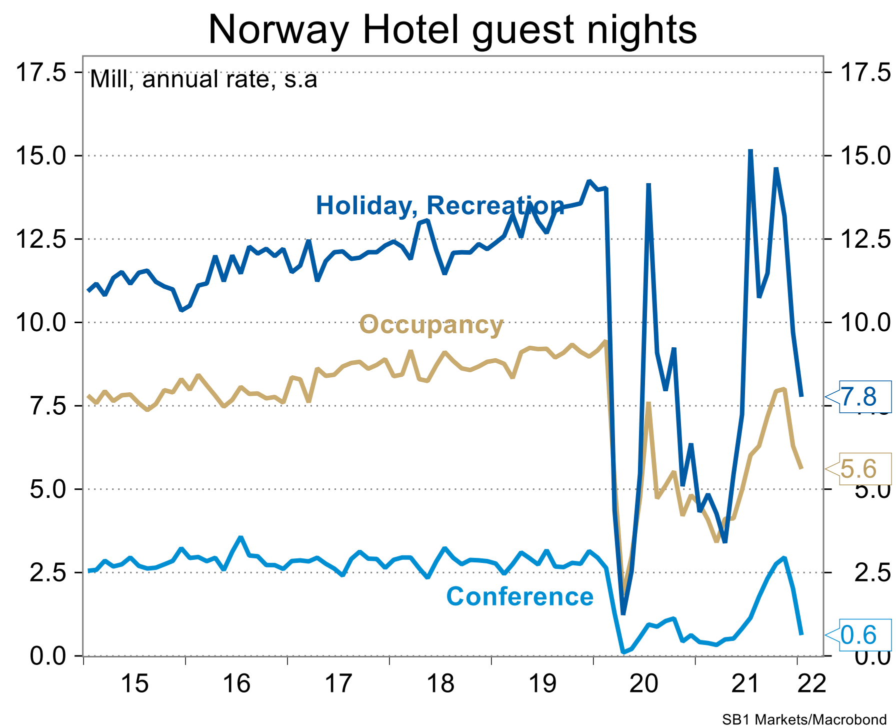




Hotels down the drain again in January – but that was the bottom?

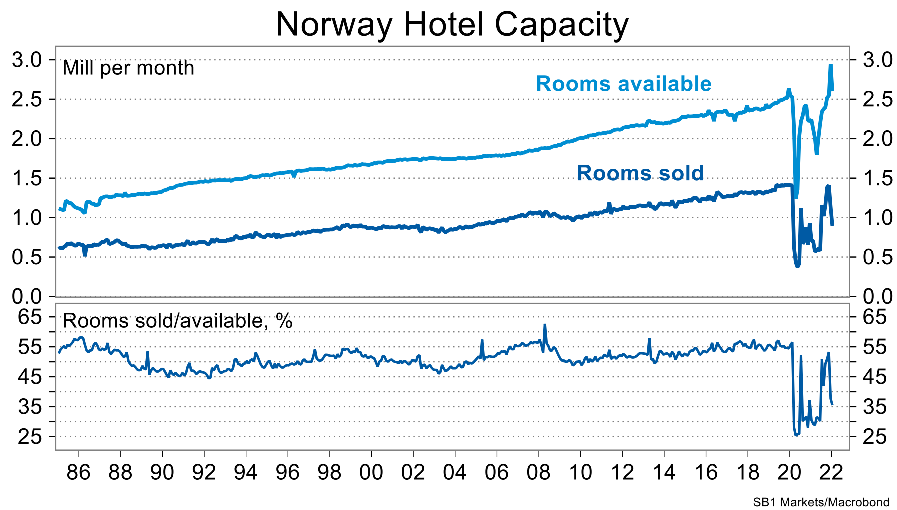
No of guest nights fell sharply in both December and January, in sum by 43%

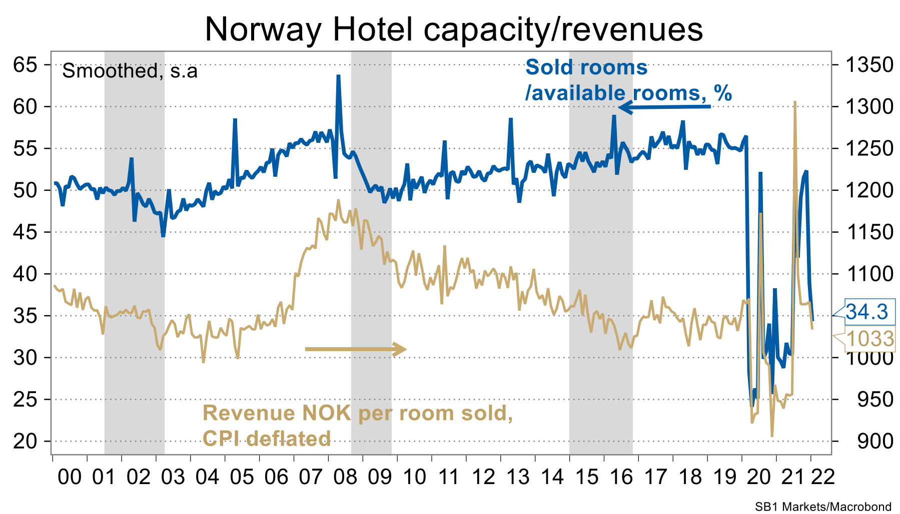


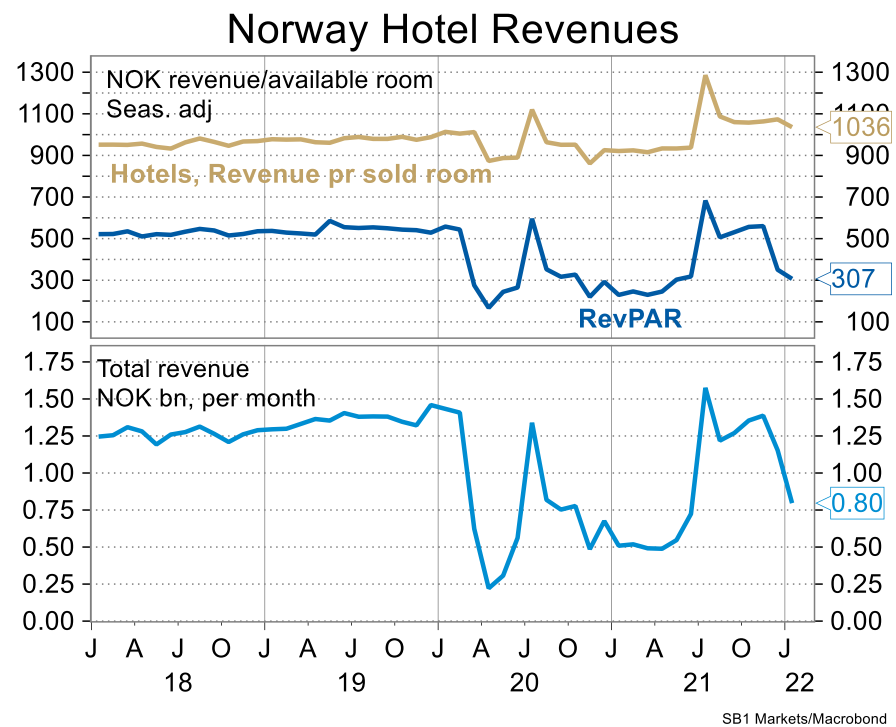


- **The no. of guest nights** recovered quickly last year, and we are sure traffic will resume to a normal level this time around too
- **Business guest nights** (sum occupation & conferences) had almost recovered before the Omicron wave, while **Recreational traffic** was equal to the 2019 average. As foreigners in total are down 20%, <u>Norwegian recreational demand was far above the 2019 level</u>, as holidays abroad were not that attractive last autumn

Room prices up 4% vs. the pre-pandemic level but revenues low in Dec/Jan



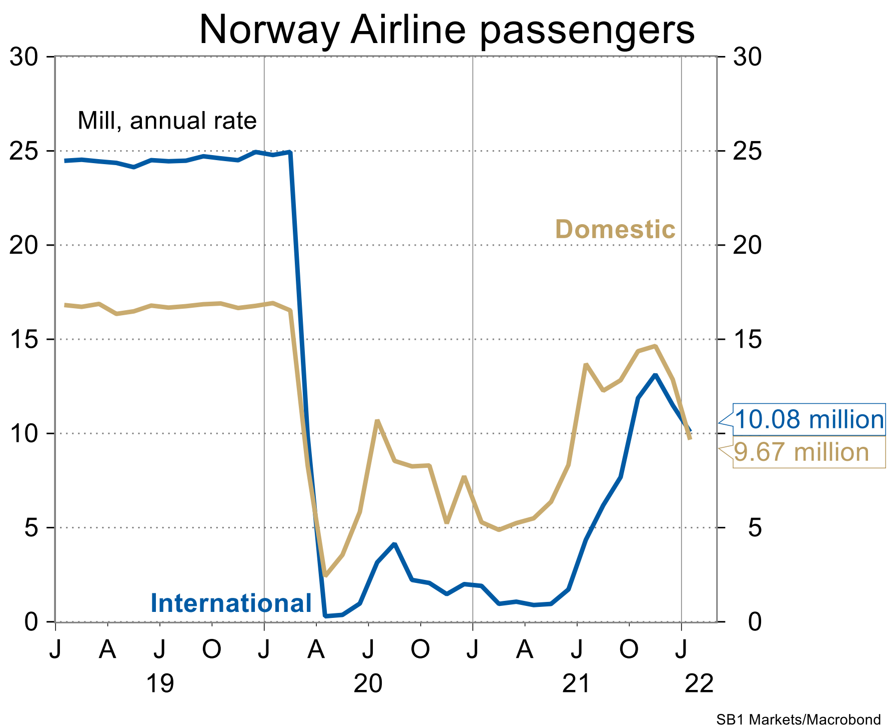


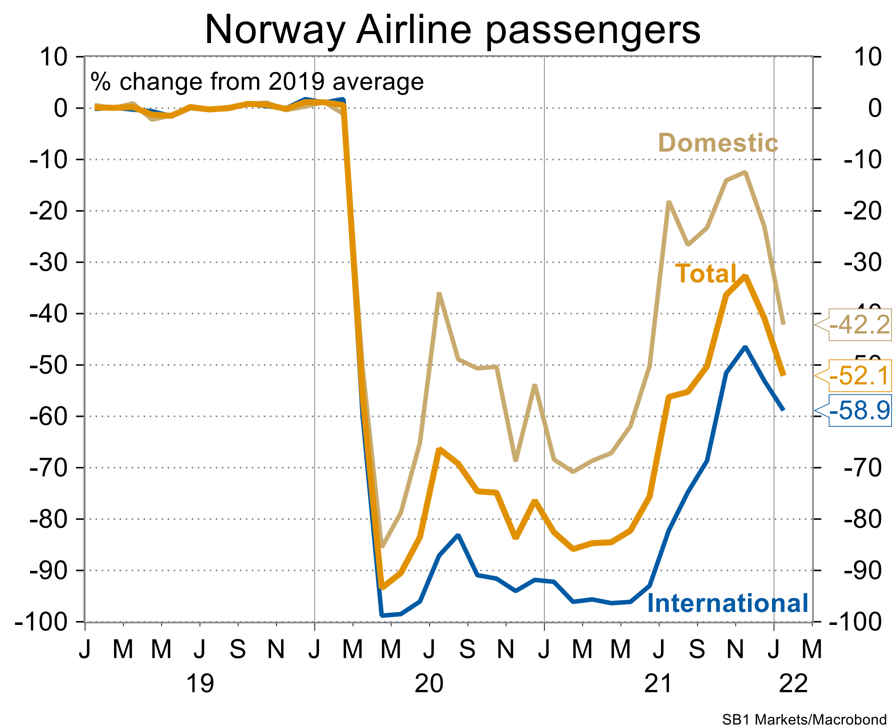


- **Capacity utilisation** (room sold vs. rooms available) was 36% in January, 1/3 vs the 2019 average level
- **Revenue per sold room** has been kept up in both Dec & Jan, even if far fewer rooms were sold (no rebates offered?)
- **RevPAR** (revenue pre available room) fell almost by 50%

Airline traffic down 30% in December & January

Domestic traffic down by 1/3rd , international traffic by 23% during the two 'Omicron' months

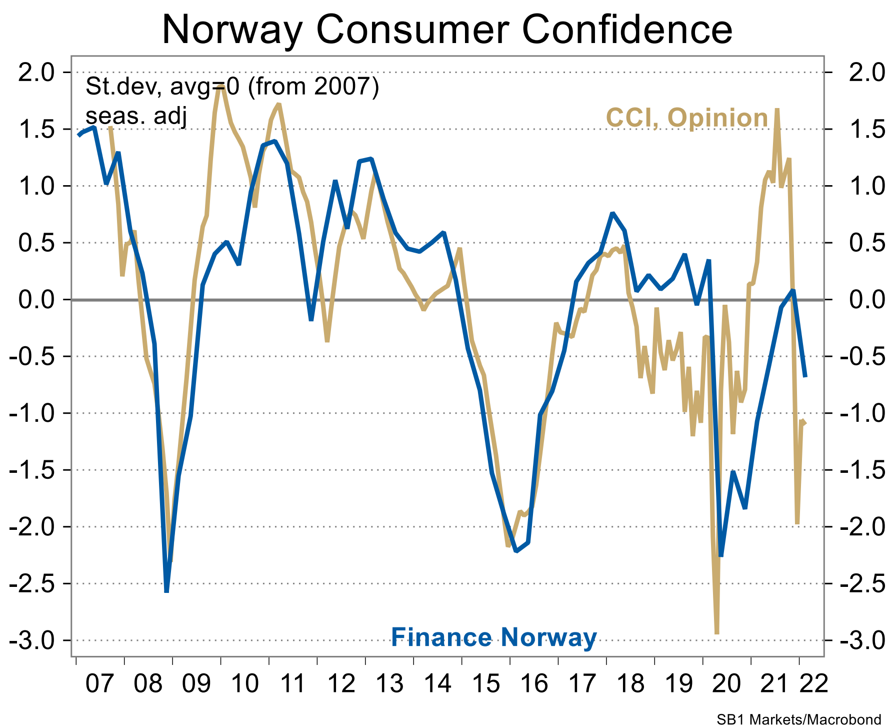




- Total traffic is down 52% vs. the average 2019 level, domestic by 42%, international is down almost 60%
  - » Traffic fell by approx the same rates in December and January

Consumer confidence very low, according to Opinion's CCI

A marginal decline in February, the index is 1.1 st.dev below par

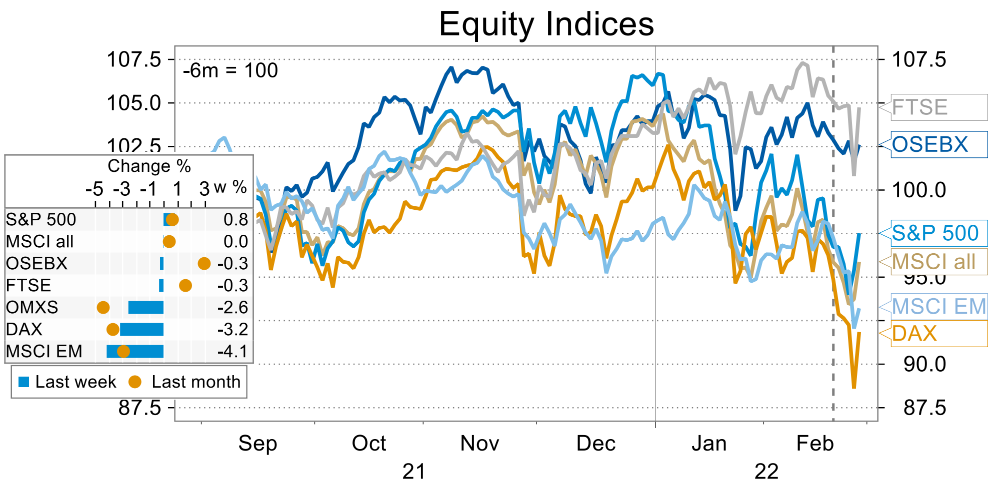


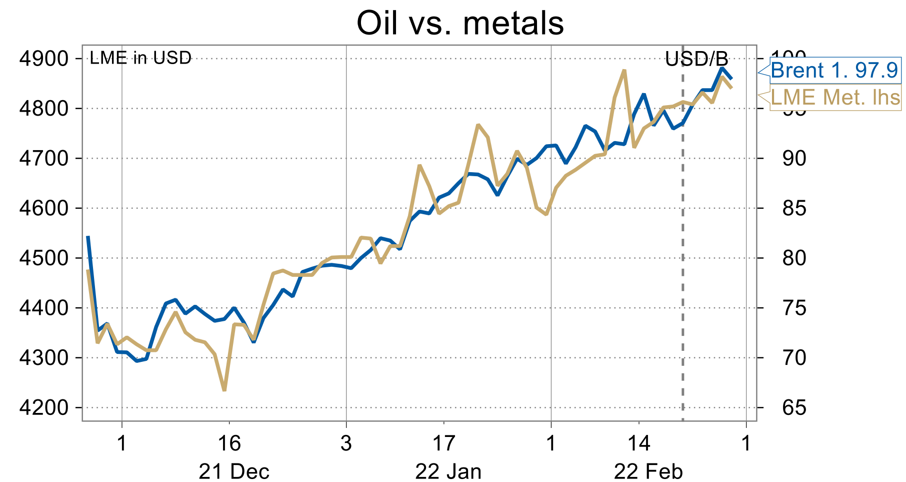
- In November and December the index fell like a stone, from +1.2 to -2 st.dev vs average, almost a full cycle
- Sure, there were some possible explanations:
  - » The return of the virus (but February brought very good news)
  - » The surge in electricity price (but prices fell, perhaps without consumers yet recognising it)
  - » Interest rates on the way up (but not further in February, just wait for March ☺)
- The index is up from the bottom but remains at a very low level

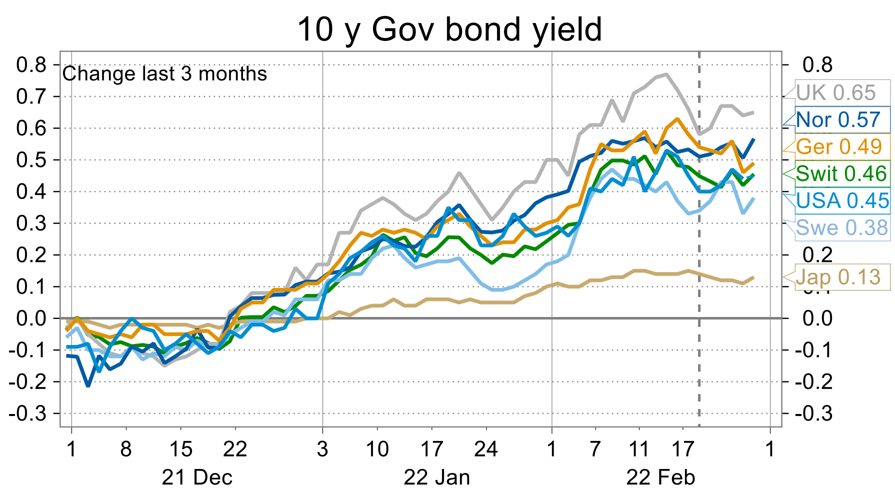
Just Friday's close on our charts

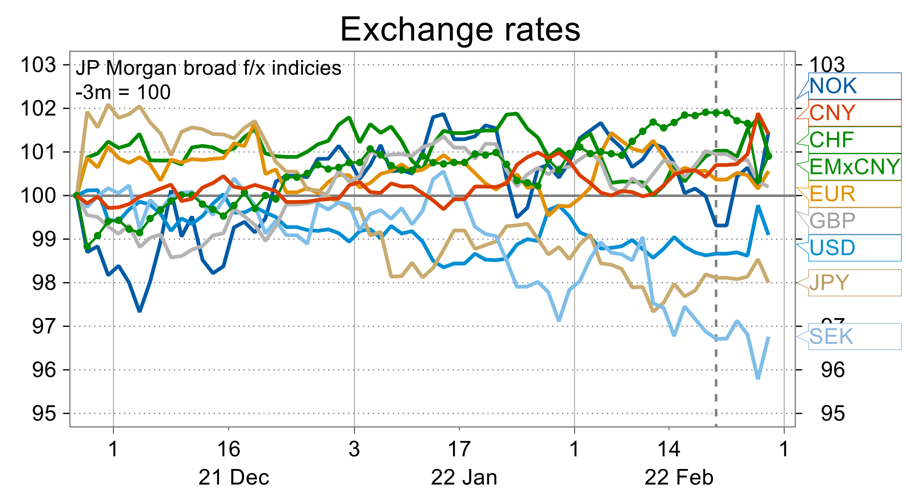
Stock markets mixed, EMU down. Yields slightly up. Most commodities up

Markets discounted mild sanctions late Thursday & on Friday. They were tightened during the weekend



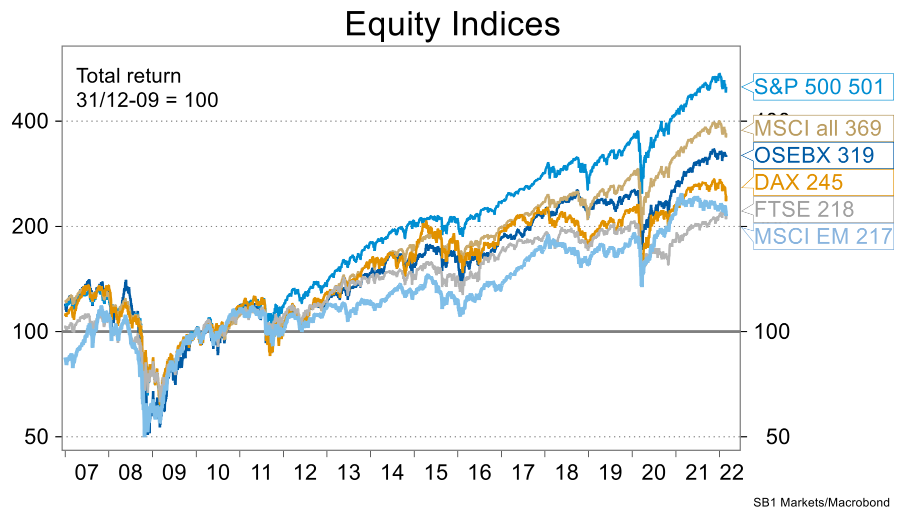


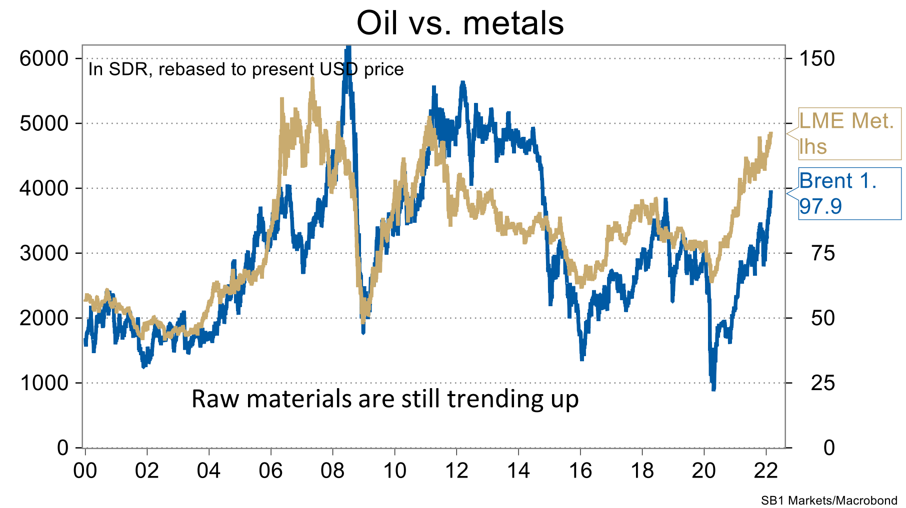


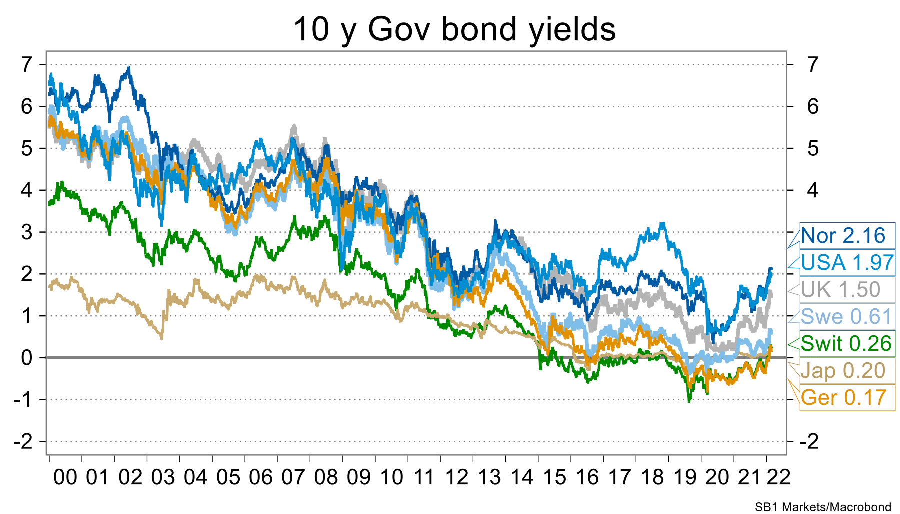


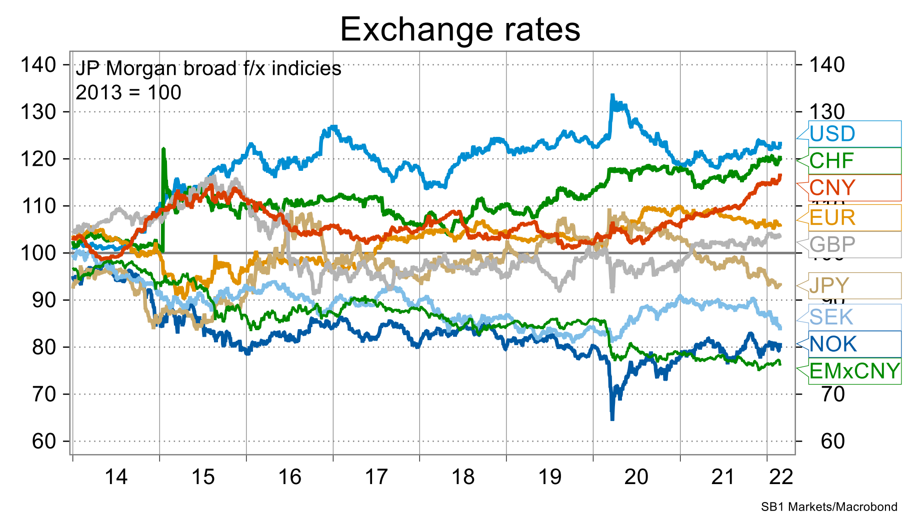
The big picture: Who were flying the highest?

Bond yields are still climbing everywhere, as are commodity prices



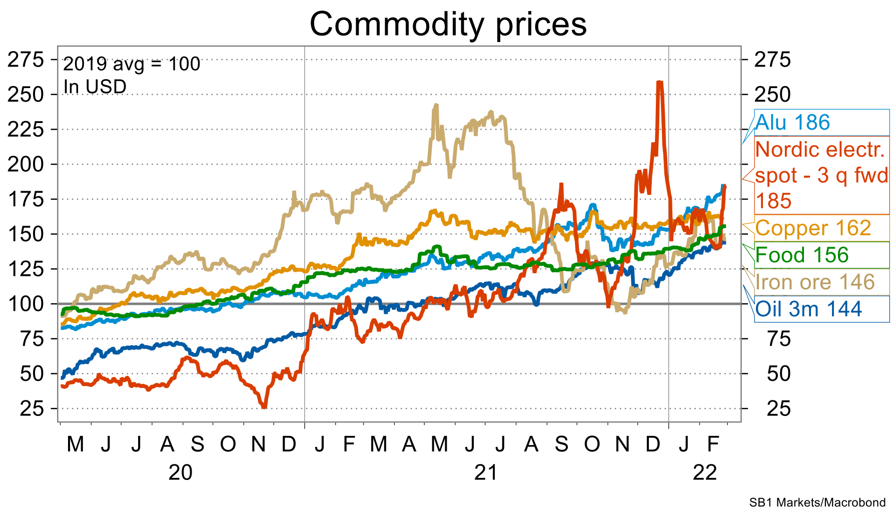


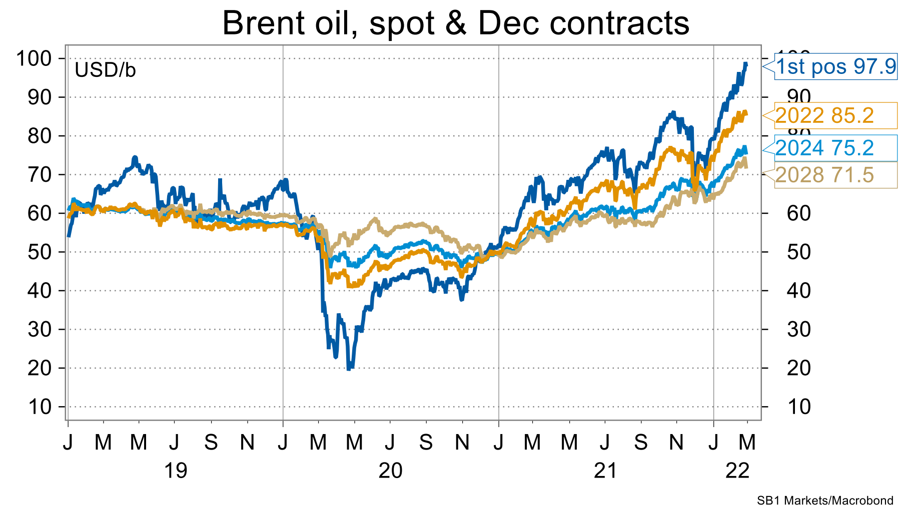


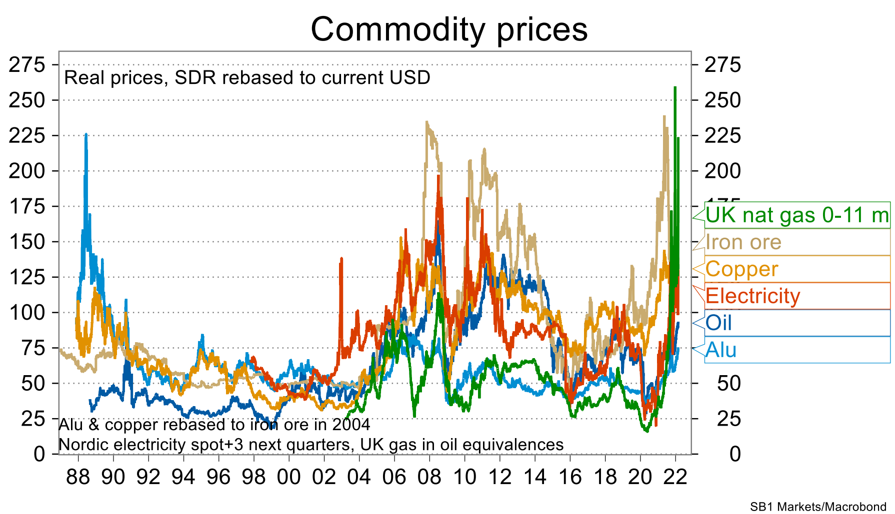


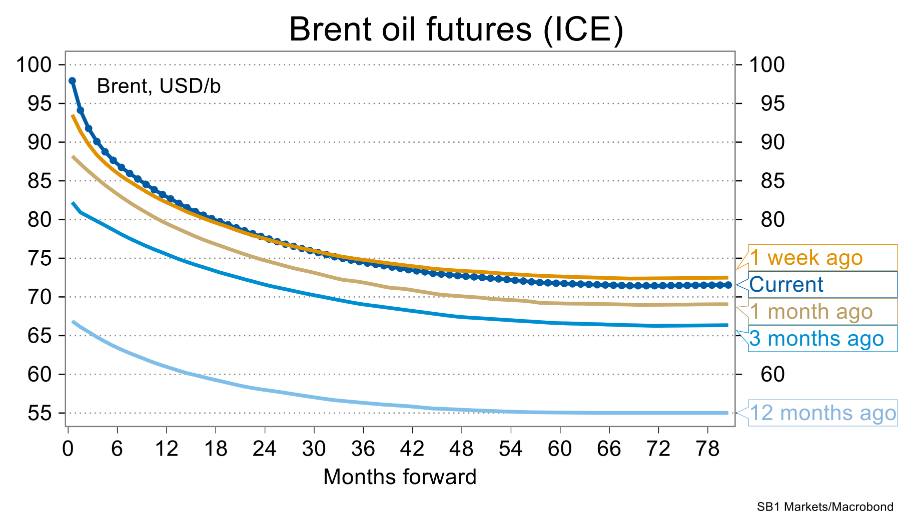
Copper, iron ore in check, most other commodity prices up, energy the most

... At least in the short end of the price curve





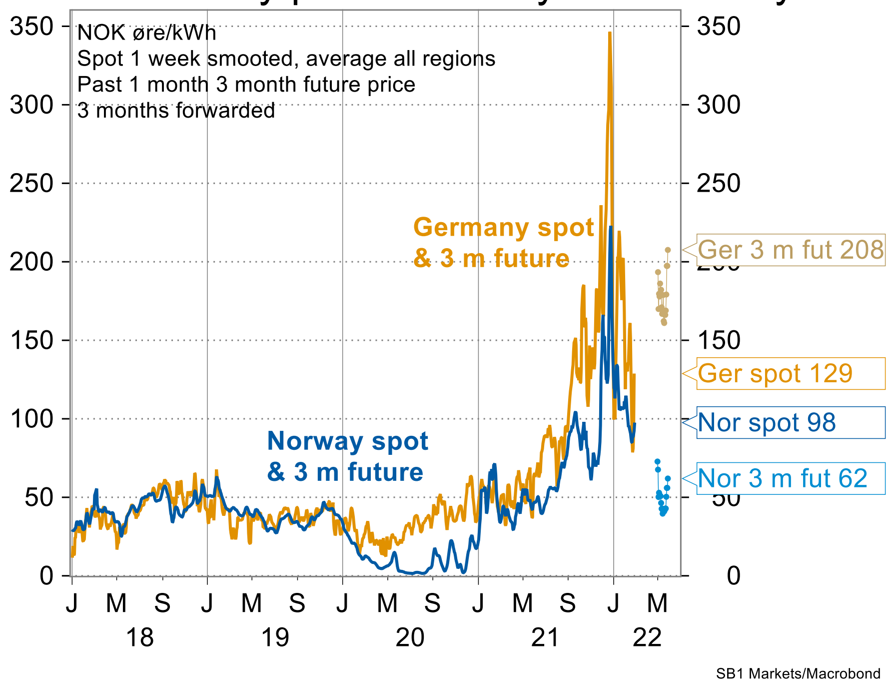




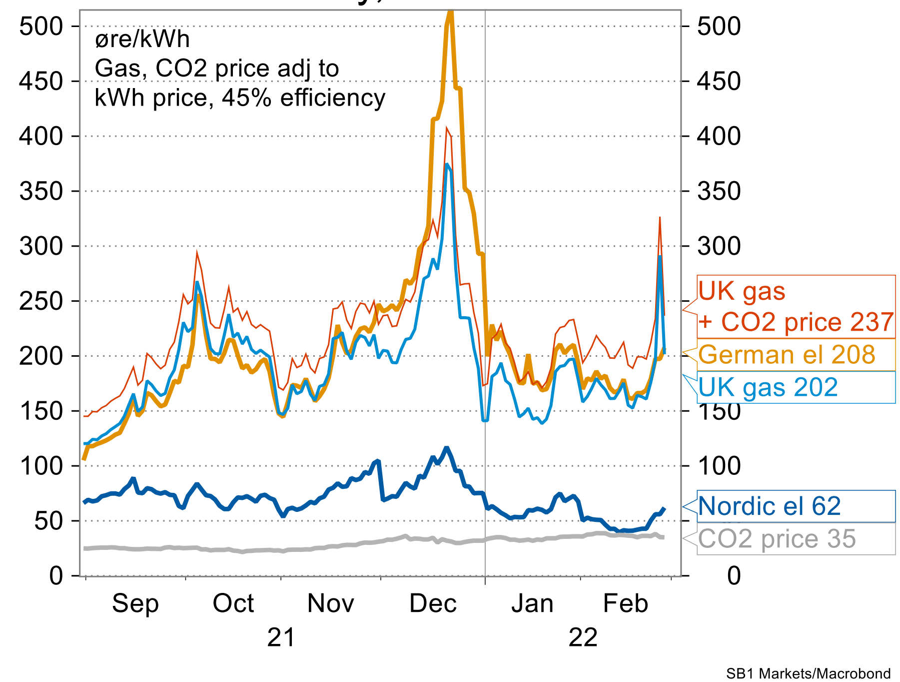
Very volatile European energy markets, for good reasons

Prices rose sharply Thursday, as market feared Europe would turn the gas tap after the Russian attack

Electricity prices Norway vs Germany



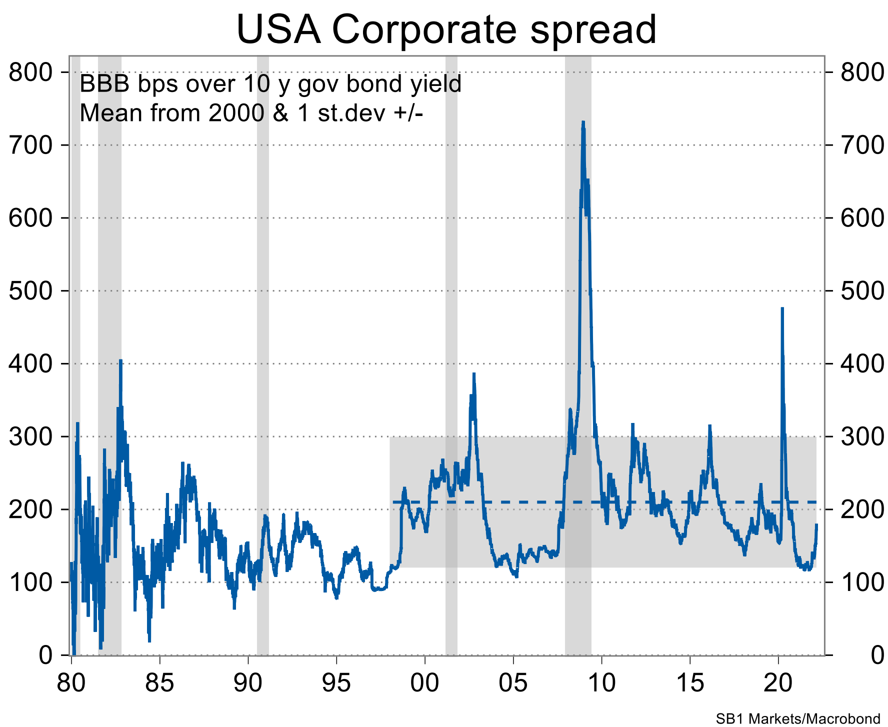
Electricity, 3rd month future

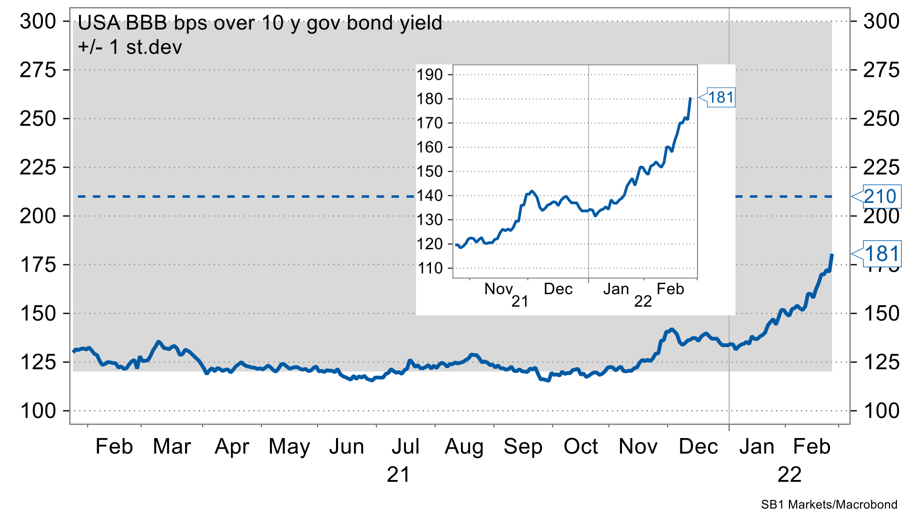


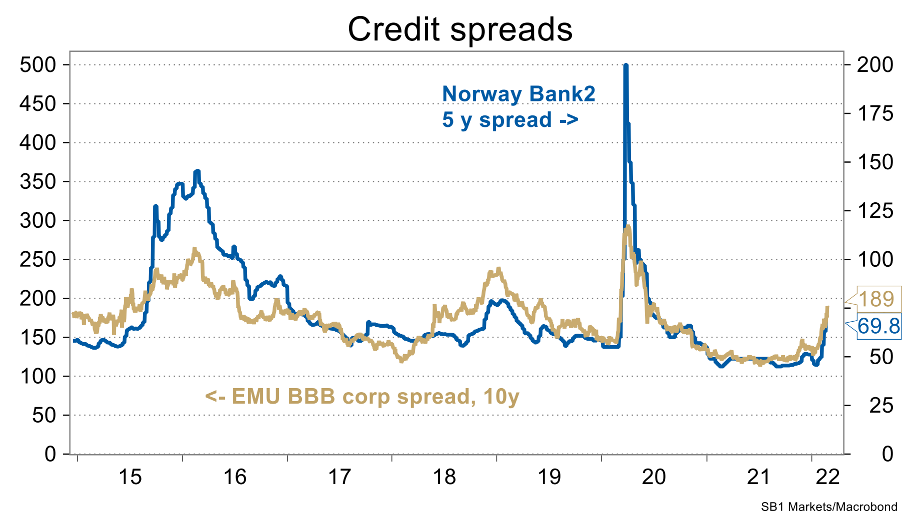
- On Thursday evening, the **US/EU sanction against Russia** were milder than assumed, and the facilitation of the continued free flow of Russian energy and food products were stressed. Then energy prices fell sharply
  - » The German electricity forward was not reasonable priced last Thursday; It did not follow gas prices up. However, the parity was re-established on Friday)
- During the weekend, the sanction regime was significantly tightened vs Russian banks, and even the Russian central bank. Still, not all Russian banks are included, and payment for energy products (and probably several others) are expected to be allowed. On the other hand, we do not know the Russian answer. Russia could of course decide to turn the gas tap itself, to hurt Europa
- **The 'Norwegian' risk**: Nordic future electricity prices remain far below European forward prices, even if Norwegian future prices climbed by 13 øre/kWh in average for the remaining parts of 2022 and 2023, equaling a 35% lift. At the CPI level (assumed continued subsidies, and low prices in Mid/Northern Norway, 2022 prices will be up by 5%, lifting the overall 2022 CPI by 0.2 pp

Credit spreads widened further last week, even for Norwegian banks/companies

Higher bond yields, lower equity pricing is not the best environment for credit spreads



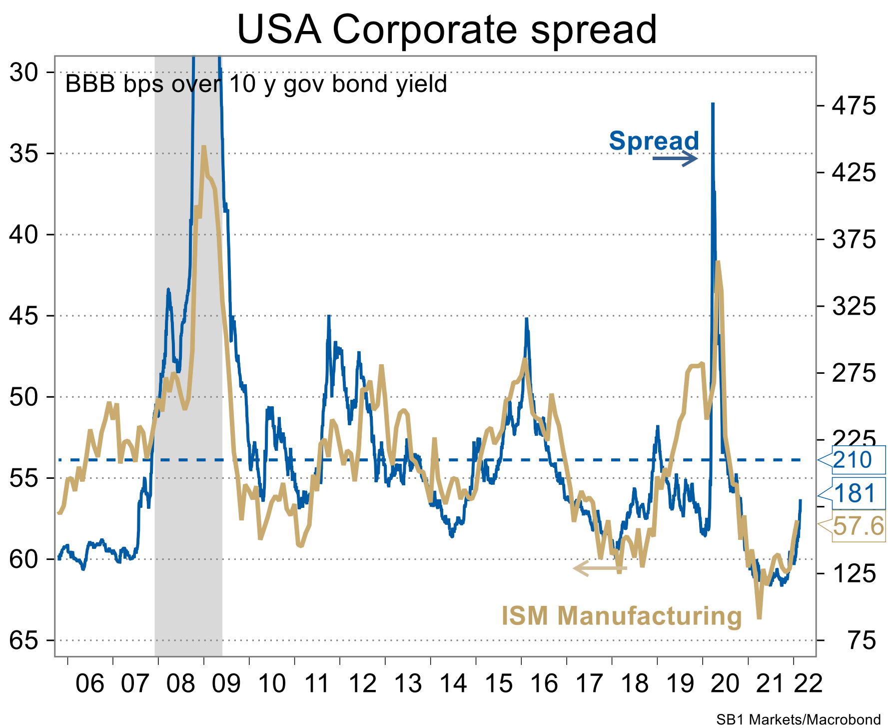




- The increase in US Corporate BBB spread now equals almost 2/3 st.dev, still far from a normal full credit cycle
  - » The credit cycle is often closely correlated to the economic cycle, check next page
- The NOK Bank 2, 5y spread widened 7 bps to 70 bp last week (and from below 50 three weeks ago), the highest spread in more than one year. 70 bps is just an average level…

It could be the economy, stupid

Growth has to be slowed to get inflation under control. If that happens…



- Growth has already slowed somewhat, according to the US manufacturing ISM – and all other surveys
- And now some other risks have materialised

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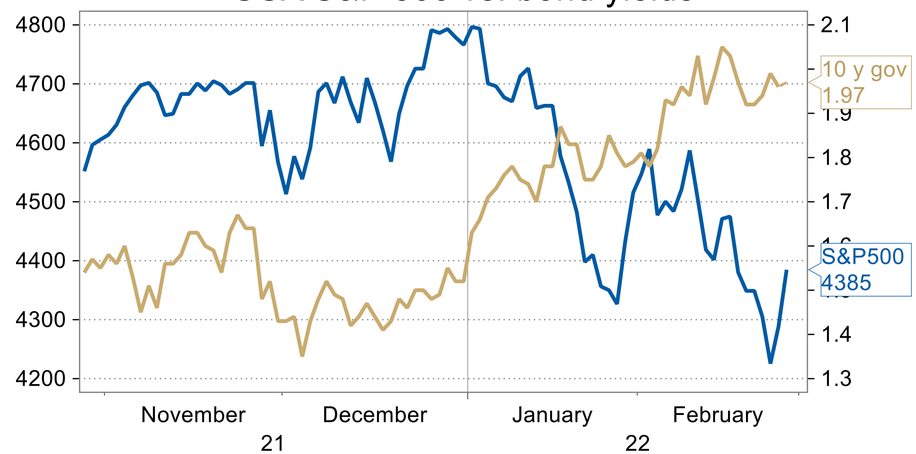
Sanctions - but what sanctions? S&P up 0.5%, the 10 bond up 5 bps to 1.97%

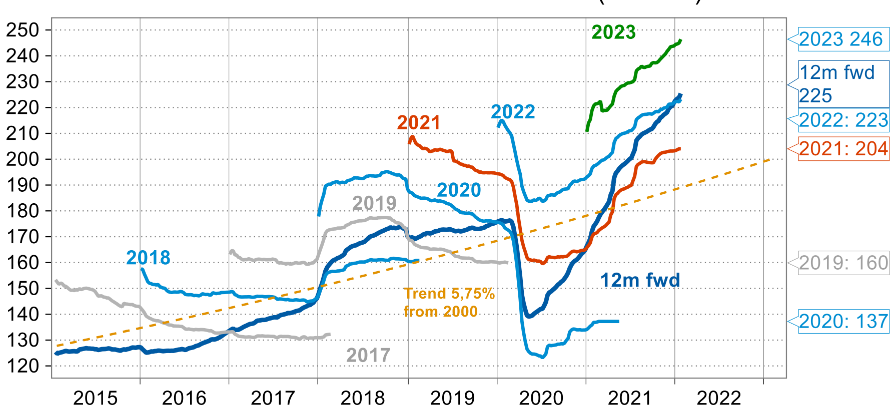
Huge market gyrations on Thursday, sanctions were far milder than feared. But that was Thursday…

USA S&P 500 vs. bond yields

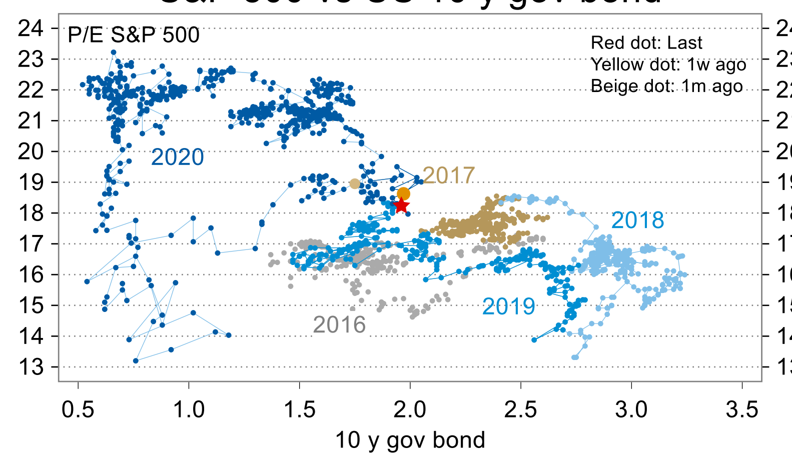
USA S&P 500 vs. bond yields



Annual S&P 500 EPS consensus (Factset)

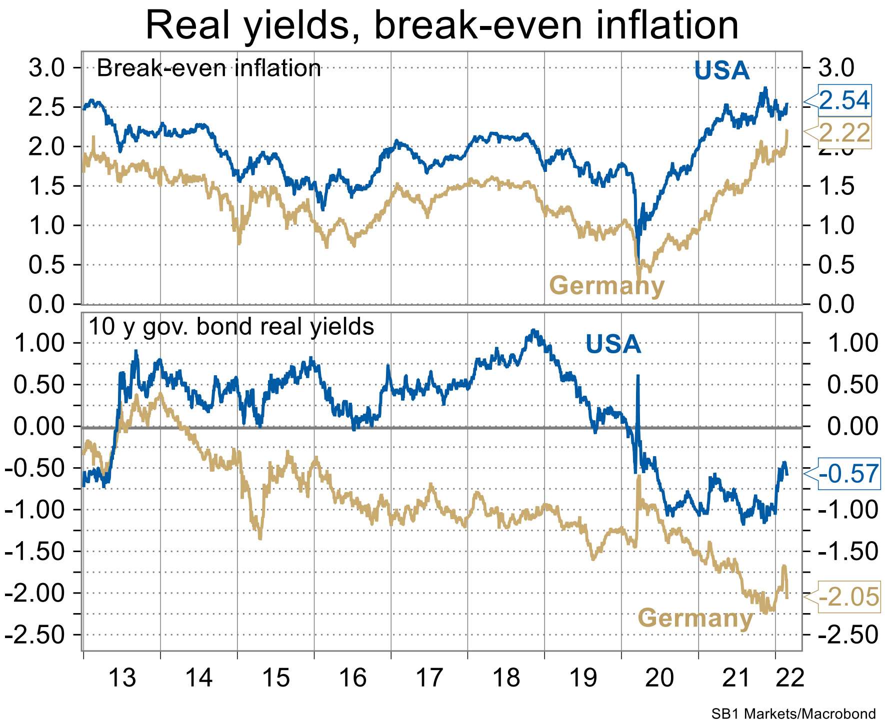


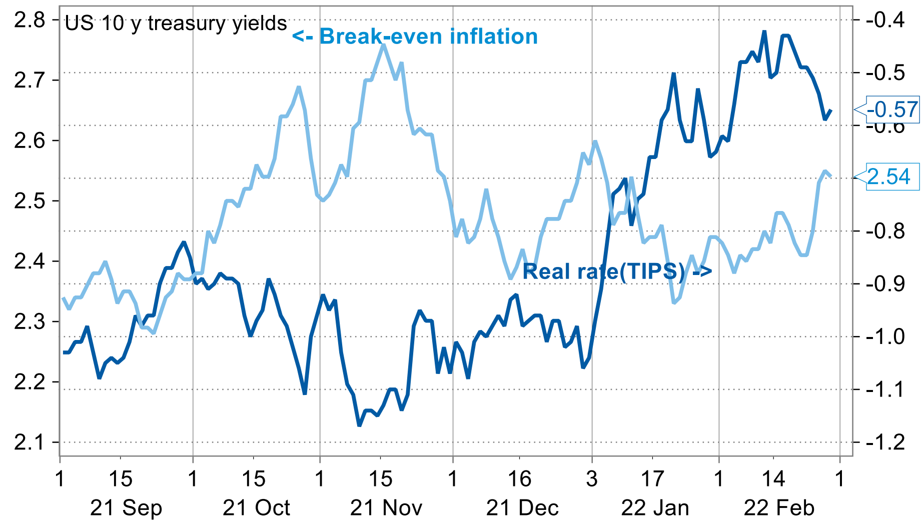
S&P 500 vs US 10 y gov bond



The economic war with Russia: More inflation, less growth

Inflation expectations up, real rates down – and twice as much in Germany than in the US





US & Germany 10 y Gov bond yield

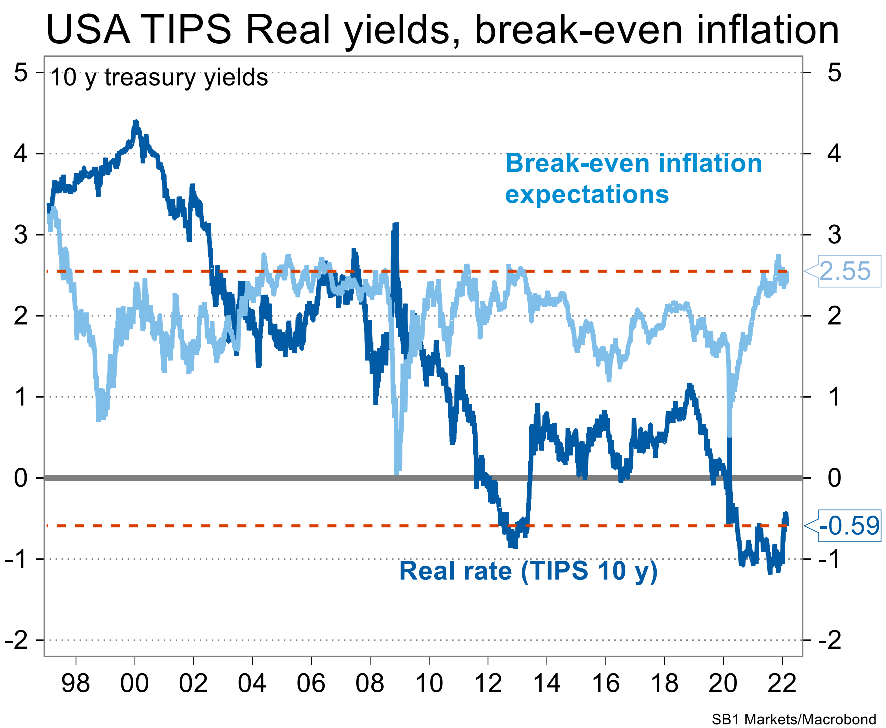
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.97	0.05	0.19	0.52
.. break-even inflation	2.54	0.13	0.13	1.06
.. TIPS real rate	-0.57	-0.08	0.06	-1.19
Germany nominal bund	0.17	-0.05	0.25	-0.65
.. break-even inflation	2.22	0.24	0.34	0.40
.. real rate	-2.05	-0.29	-0.09	-2.26

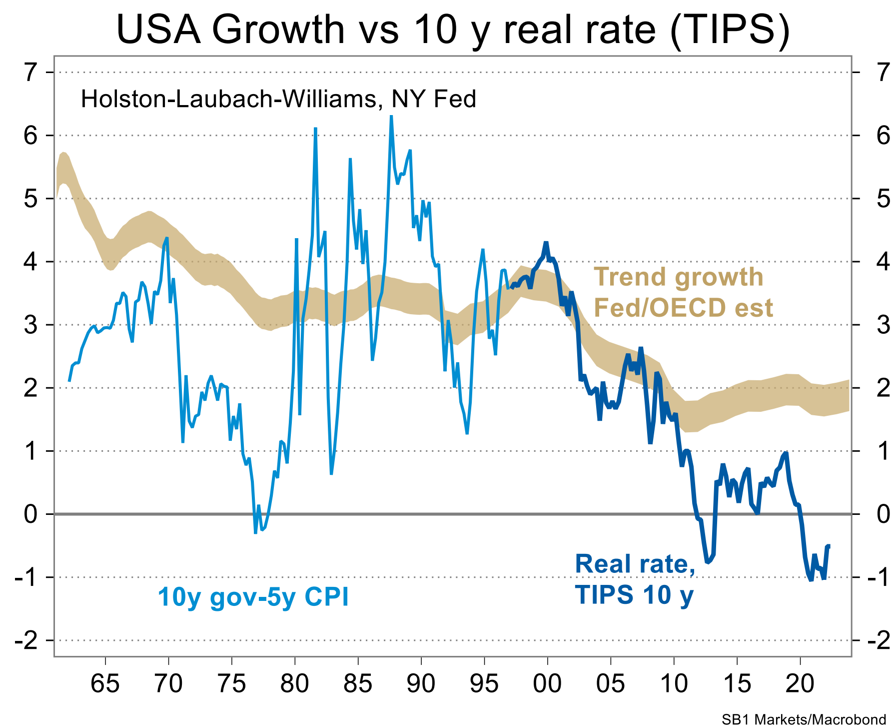
SB1 Markets/Macrobond

- **Higher energy & raw material prices** due to the supply shock (if Russian energy & other raw materials are kept out of European/global markets will push inflation further up – and growth will very likely slow, due to reduced disposable incomes perhaps also due to increased geopolitical uncertainty. German 10 y inflation expectations at 2.22% is unprecedented
- **The sanction regime** is being tightened by the day, and we do not know how Putin's regime will respond, by cutting exports of energy, food & raw materials the West still want to buy

What if the gap between growth expectations and the real rate narrows further?

XX UPDATE XX Well, now it is happening – but the 'spread' is still far too large?

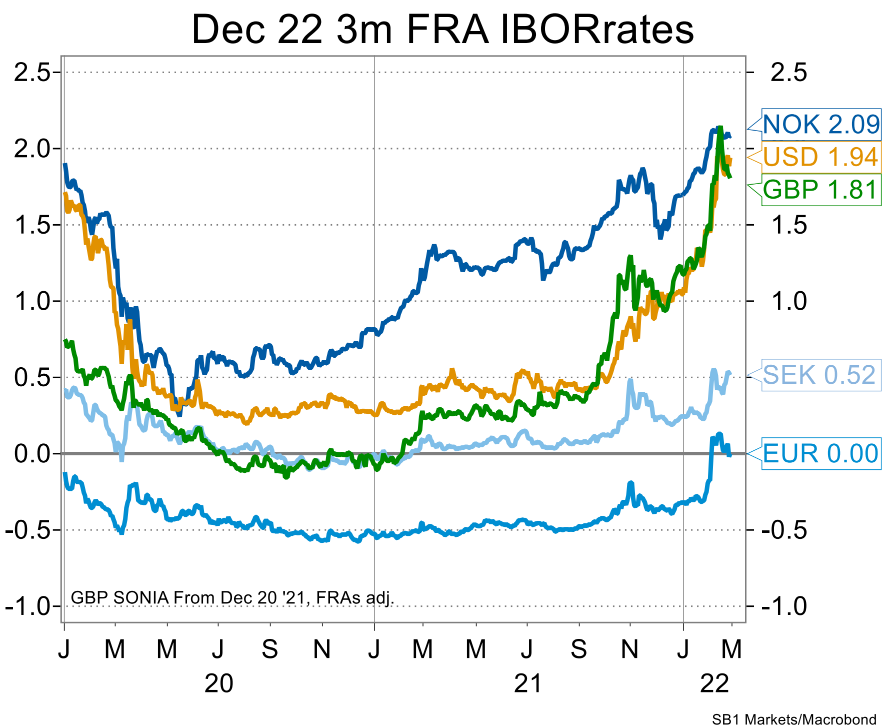


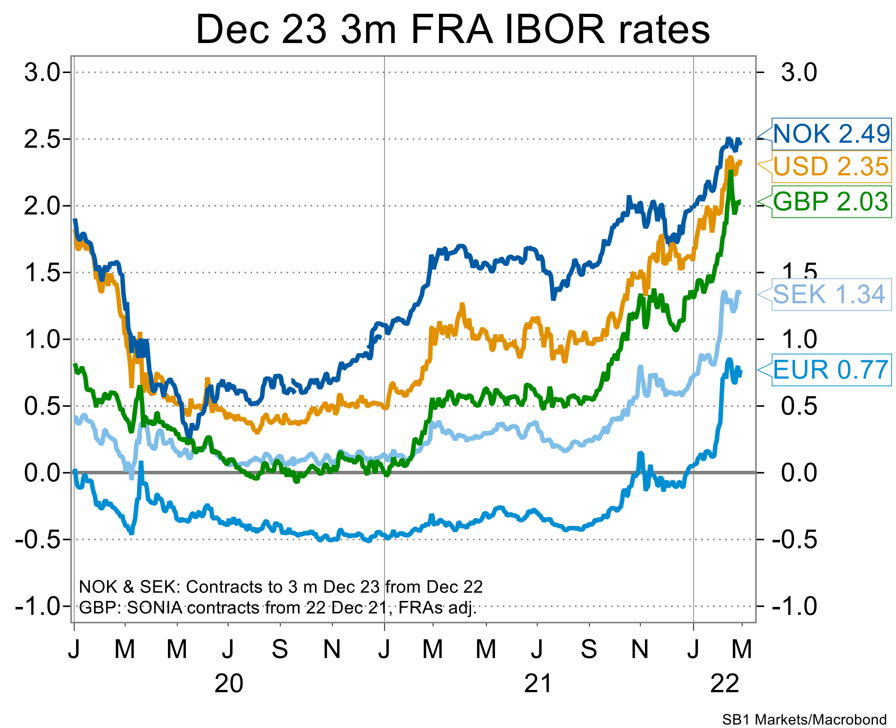


- Now, growth expectations may be exposed – even if 'geopolitical crises' normally not hurt economies or markets much

Rate expectations lowered in EMU & UK but not in US, Norway & Sweden

We assume an economic war with Russia will reduce growth more than it lifts inflation…

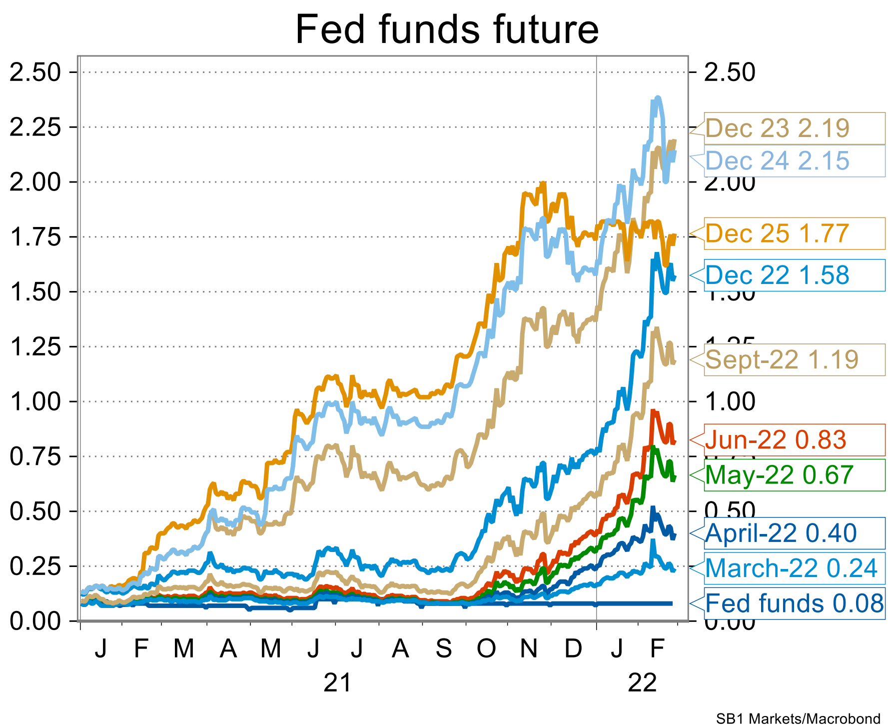


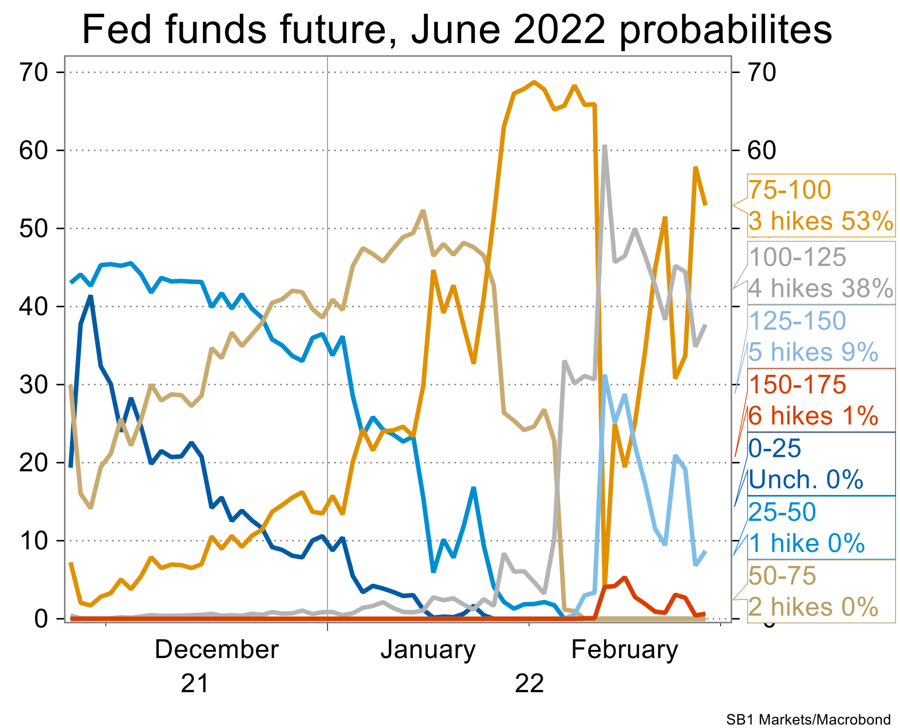


- … especially 'dangerous' inflation, domestic cost inflation via the labour market. Most other inflationary forces are not long lasting
- If so: A conflict with Russia will not lift interest rates, at least not in Europe, which is more exposed than the US

Short term Fed expectation flat, longer dated contracts up

Inflation is worryng the US market ‘more’ than the impact on growth

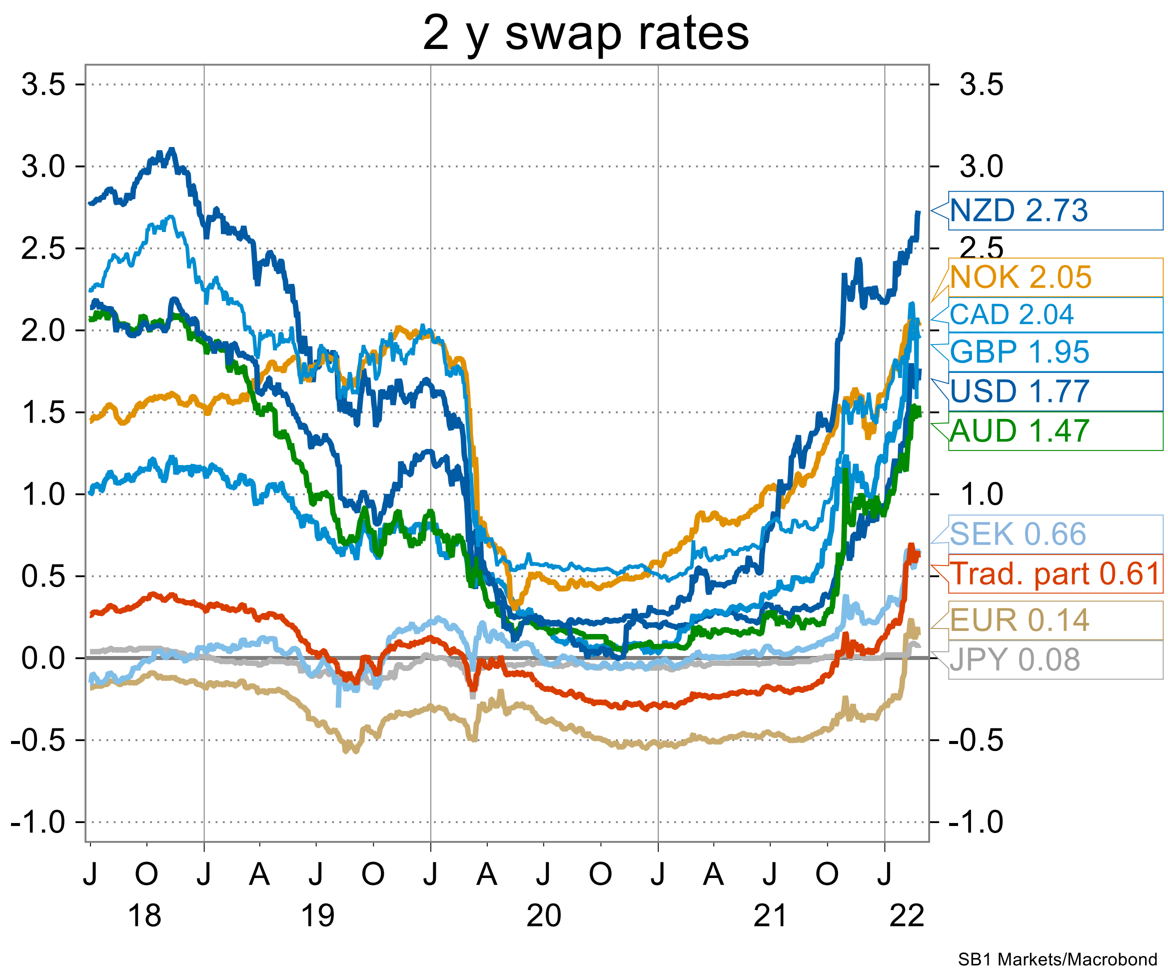


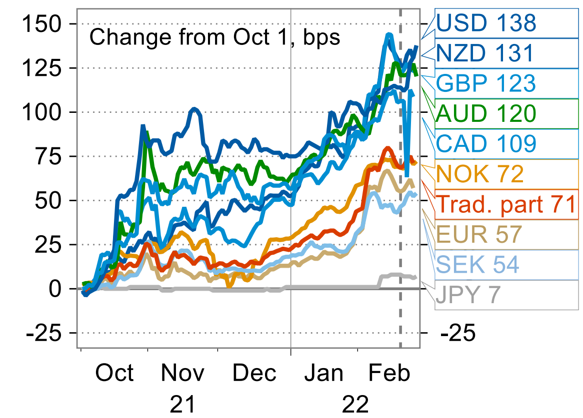


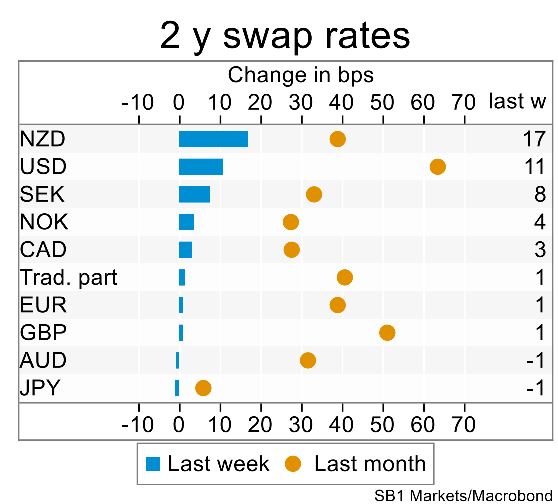
- A 50 bps March hike is now deemed to be far less likely than a 25 bps, 24% vs 76%. At Feb 10, the bet was 94% for a 50 bps hike

Geopolitics created some volatility – and most 2 y rates rose

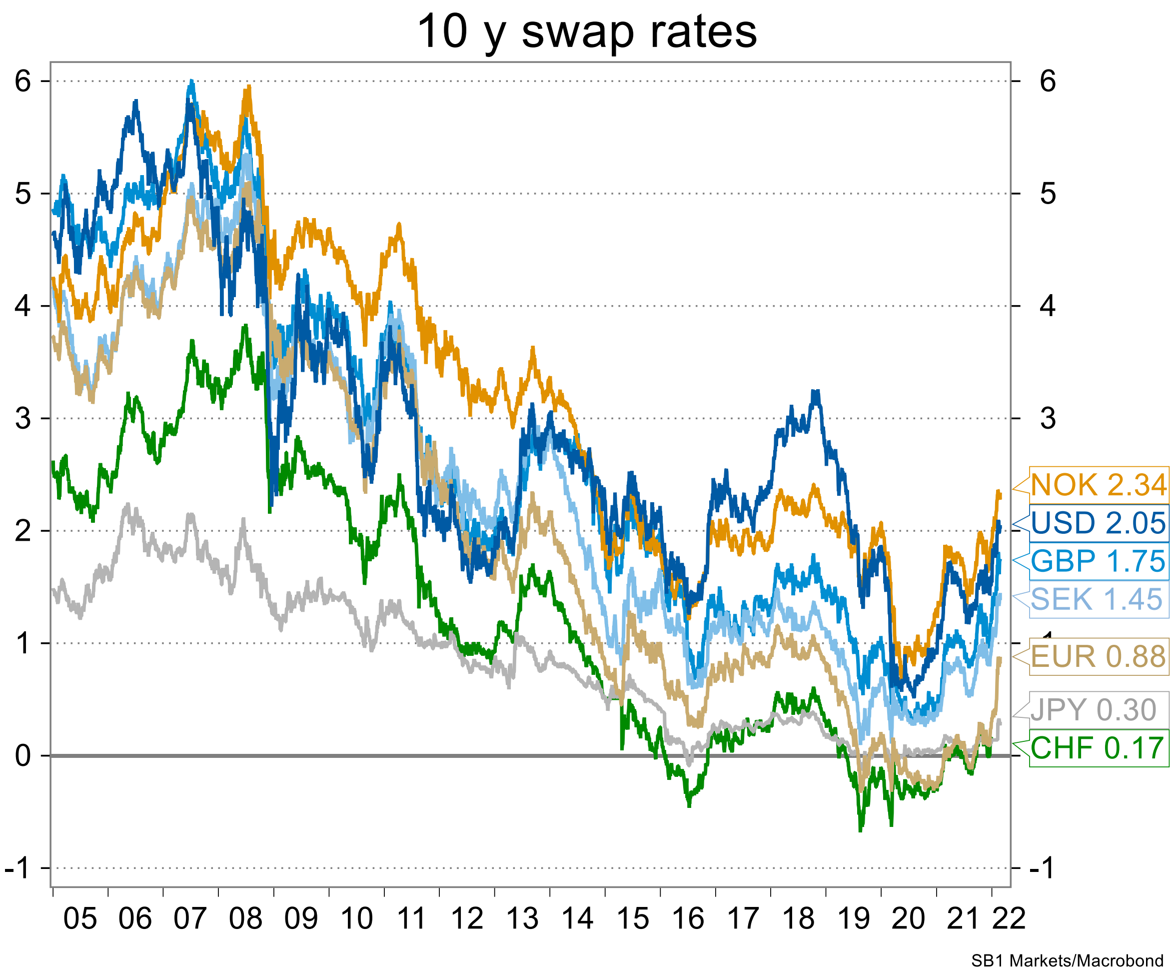
Down under NZD rates are climbing rapidly, as RNZ hiked to 1%, and promised that more is to come

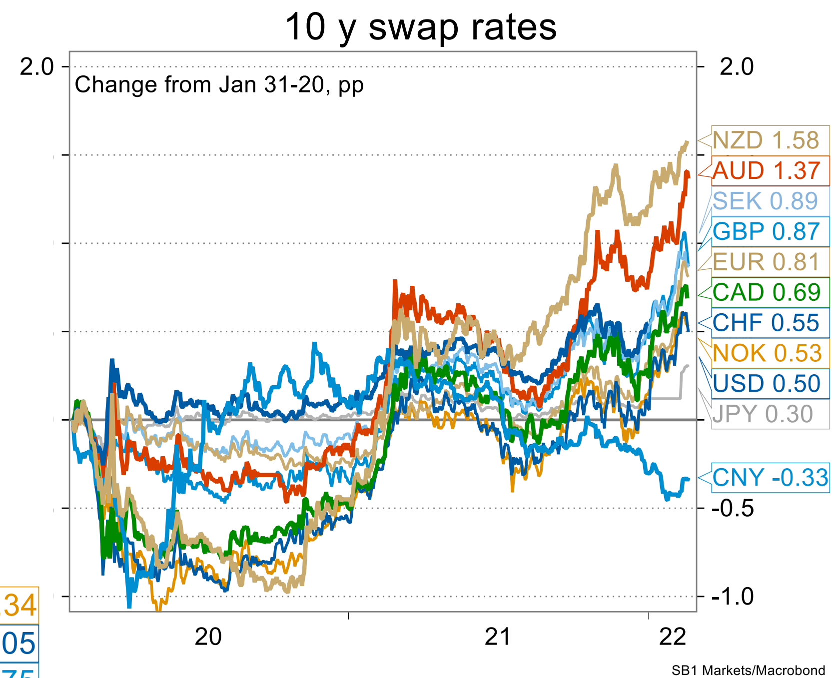


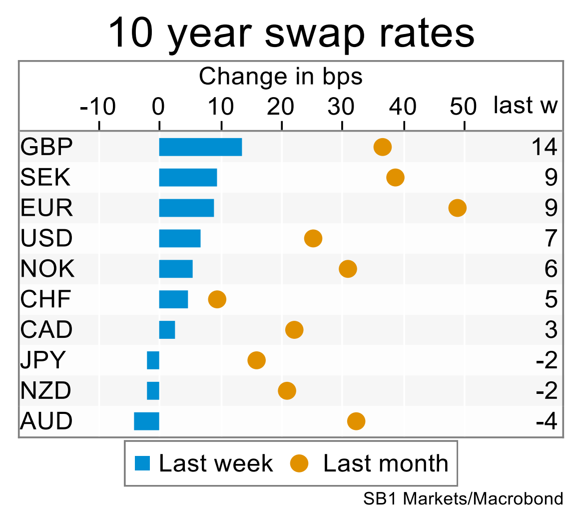




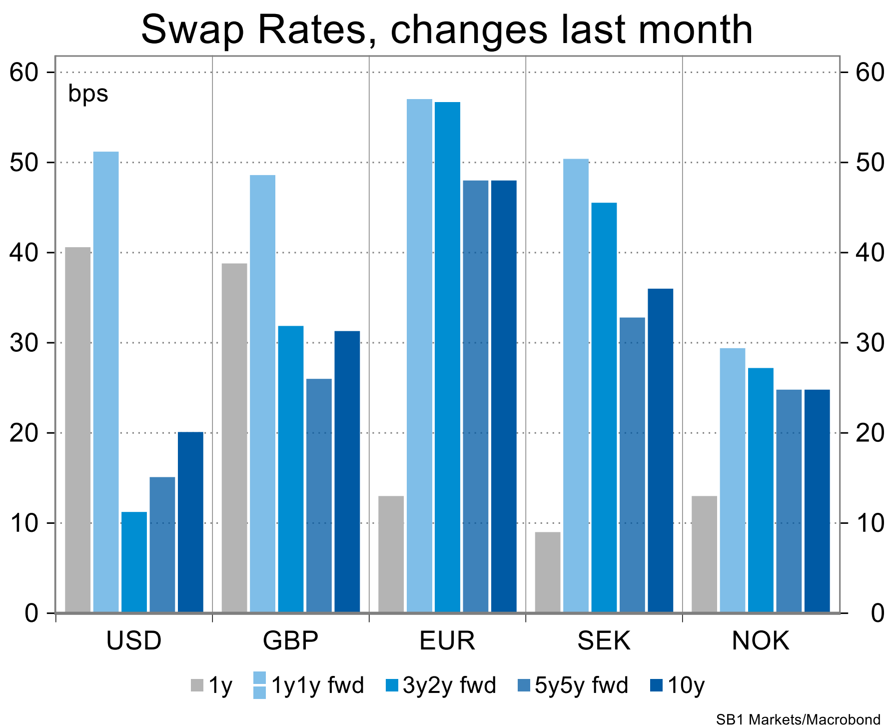
Most 10 y swap rates up last week, fear of inflation dominated

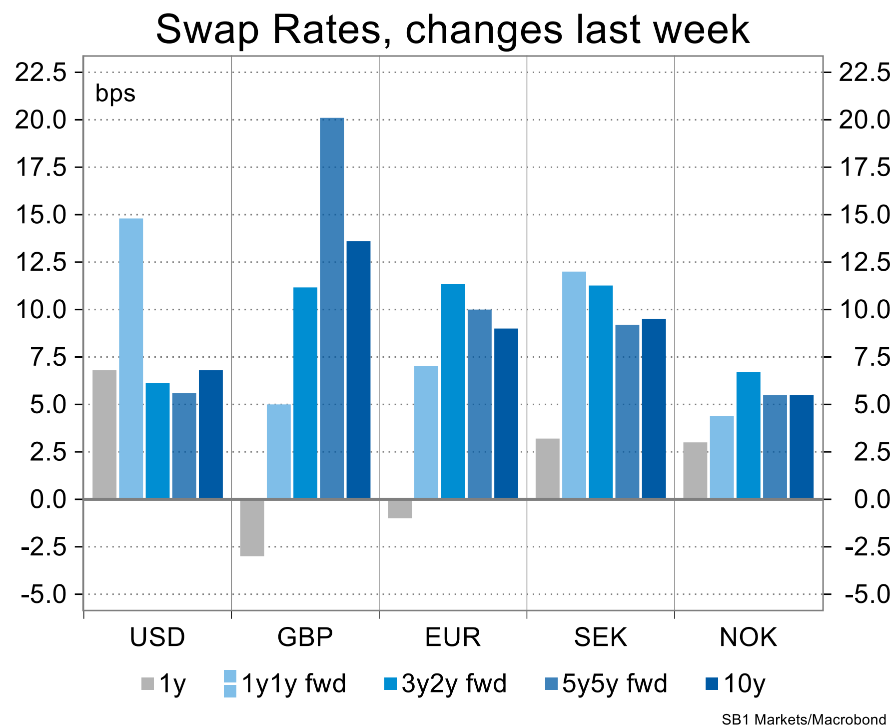






The very short end down in EMU, UK; Other rates up – Norwegian the least





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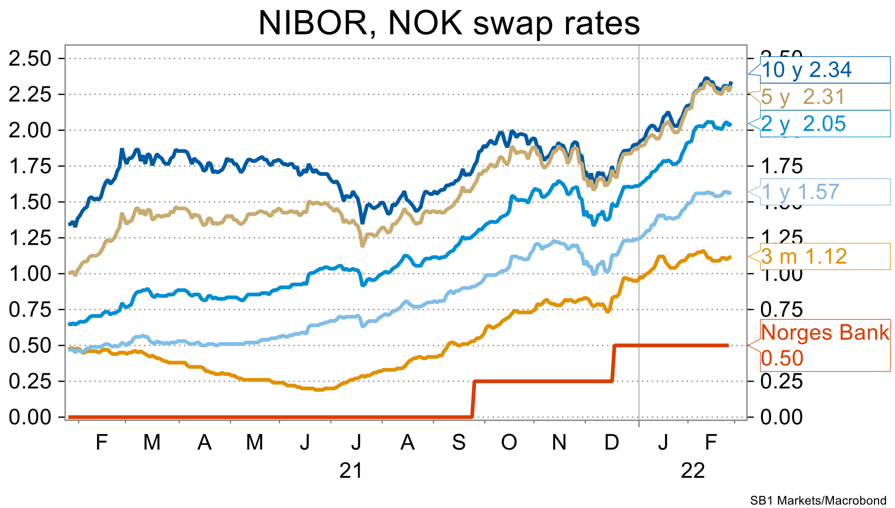
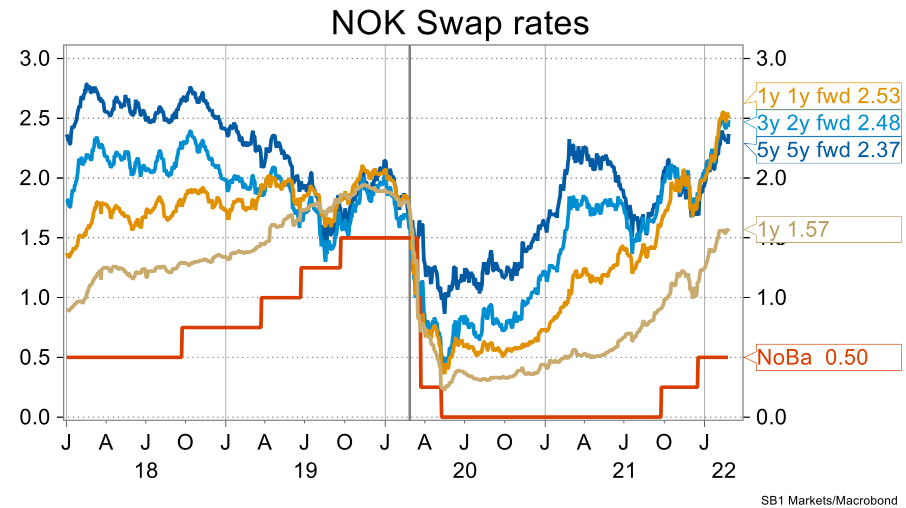
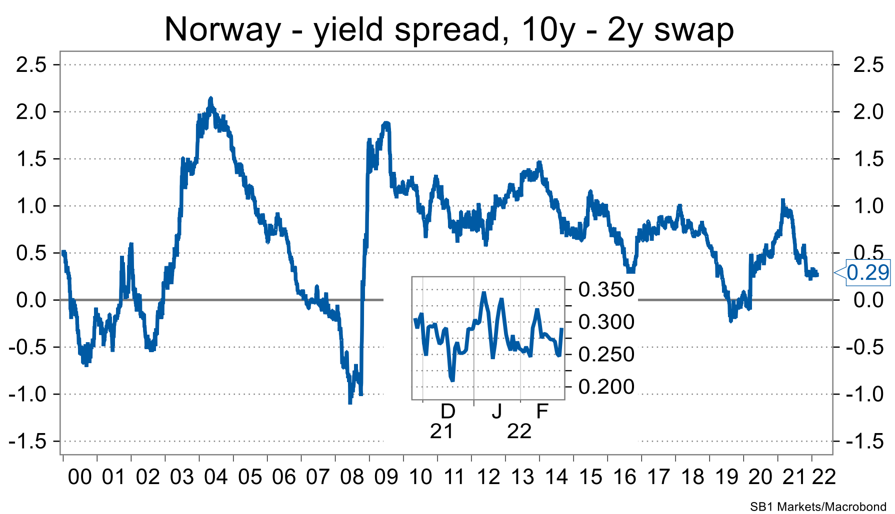
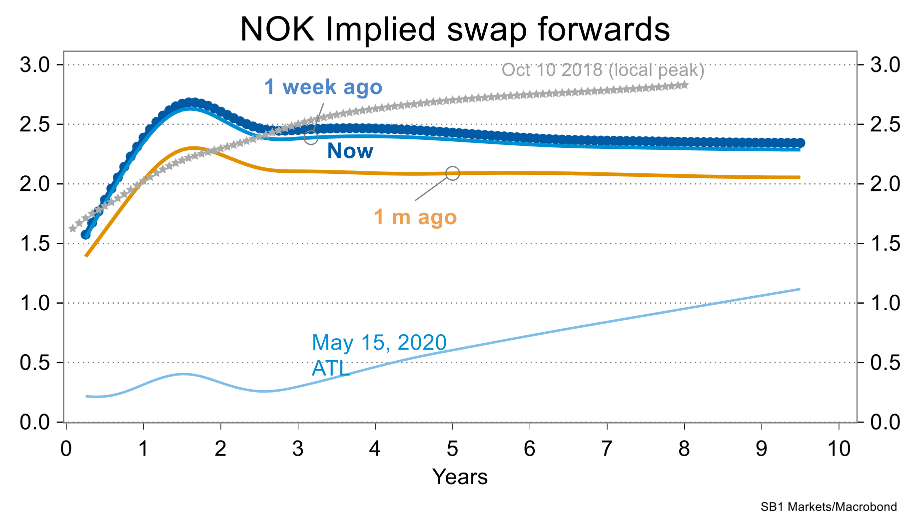
Up all along the curve last week, the 10 y up 5 bps to 2.34%!

The whole curve up last week but just by some few bps



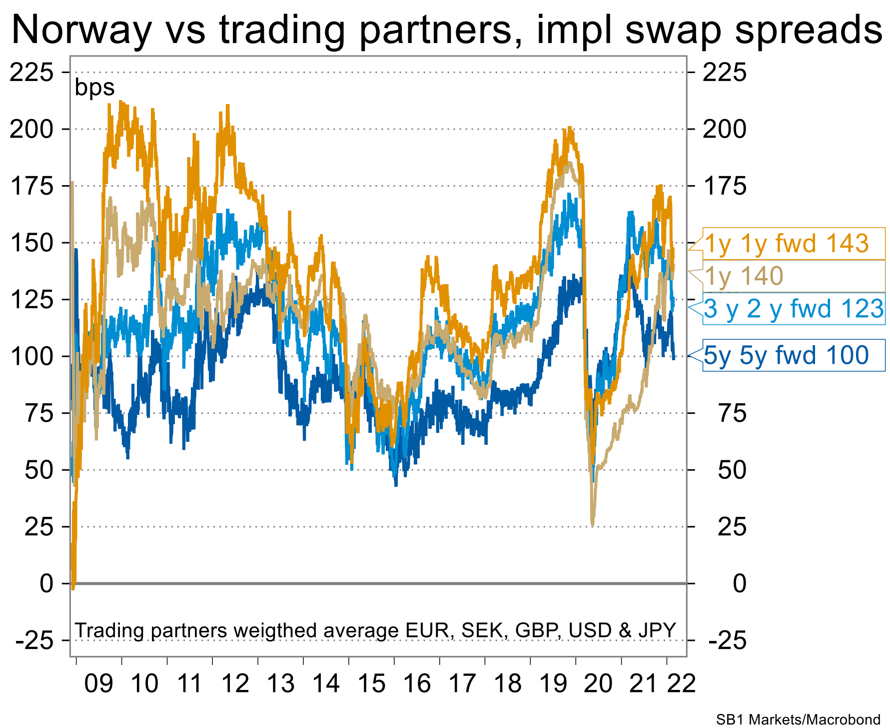


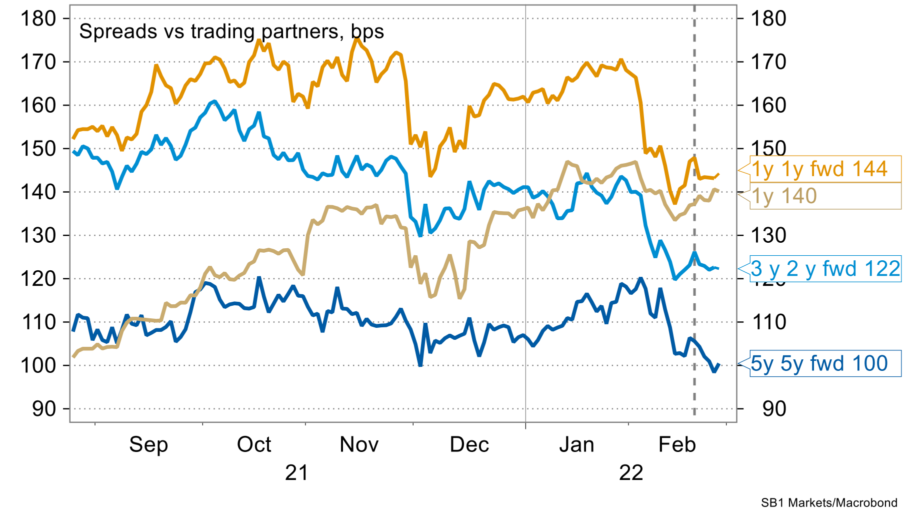


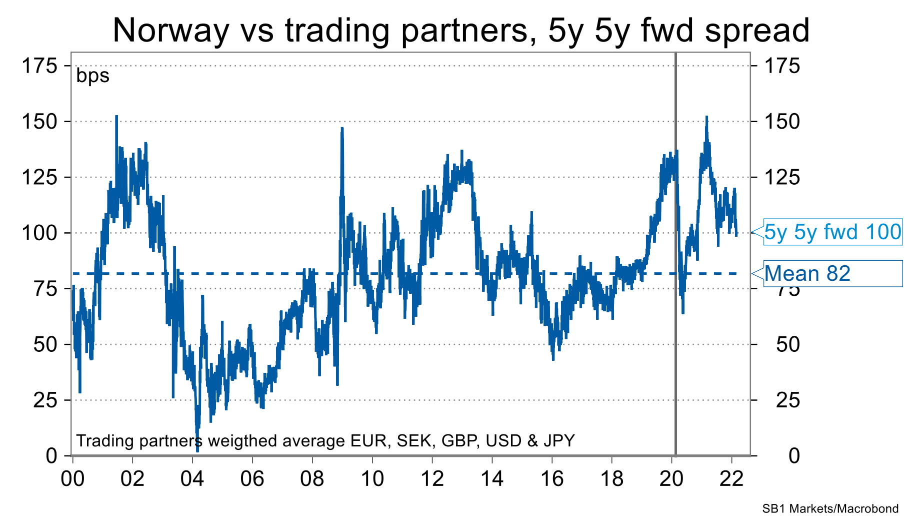


Spreads down last week – even if Norway is a relative winner from the conflict

(Due to the lift in oil and gas prices)







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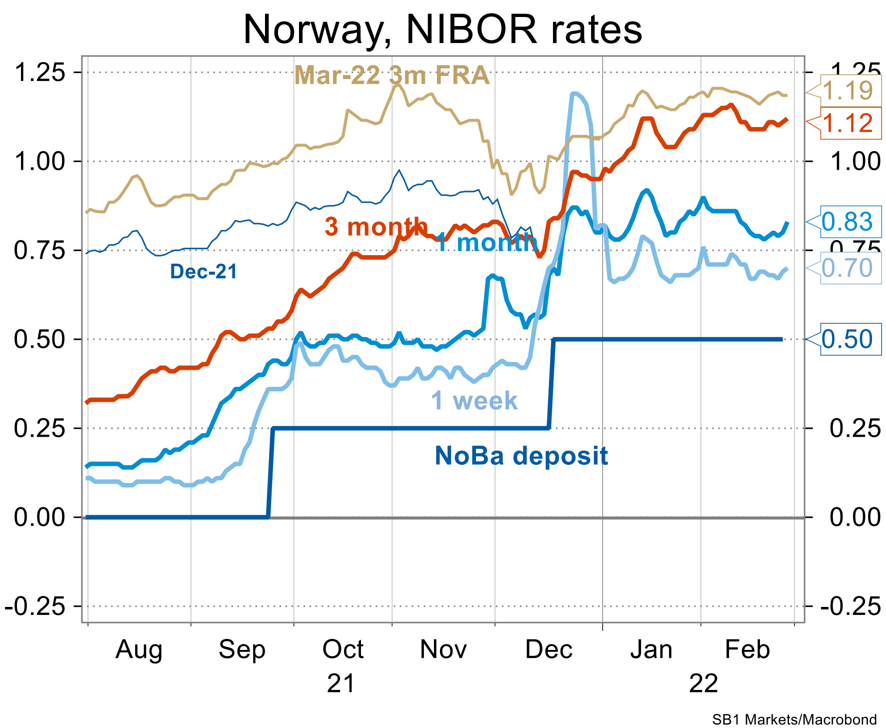
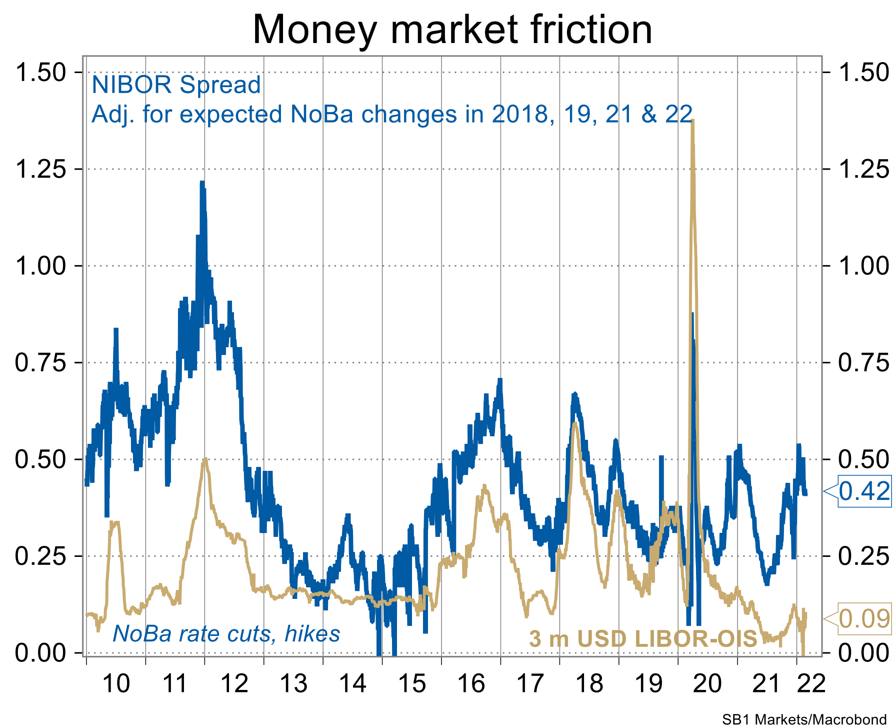
The 3m NIBOR up 3 bps to 1.12%

The NIBOR spread up 1 bps to 42 bps (if NoBa hikes ‘just’ 25 bps in March, and not further in May)

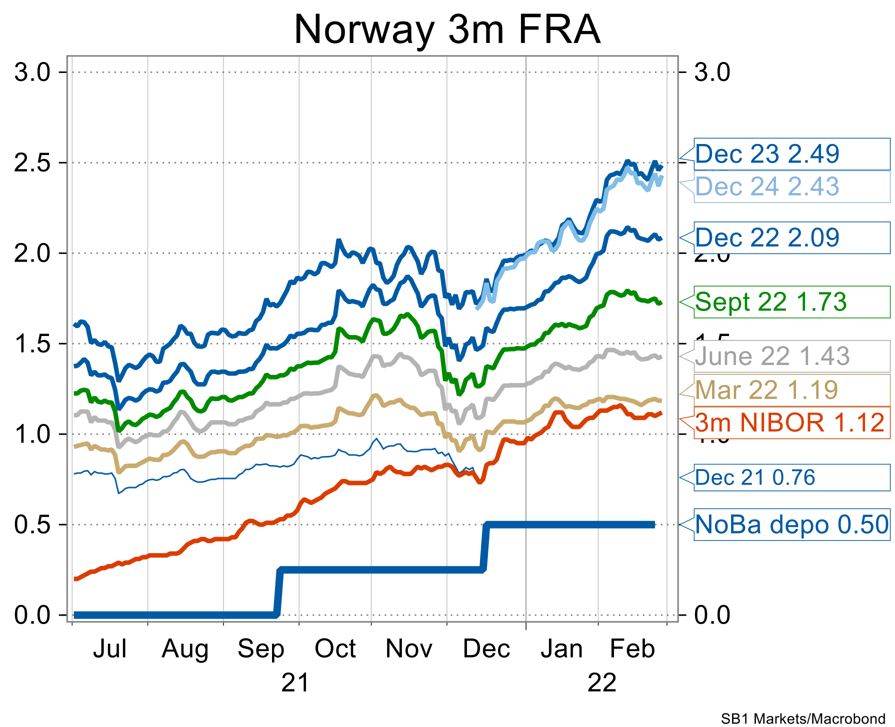


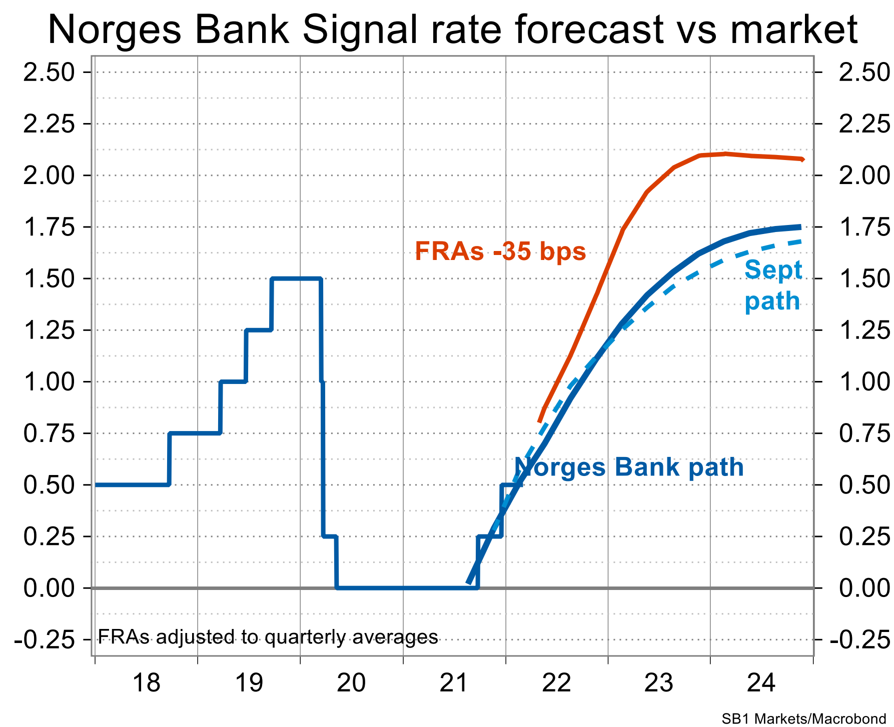


- The **3 m NIBOR** has been at elevated level recent weeks but the spread to a reasonable NoBA signal rate has narrowed somewhat
- The **USD LIBOR-OIS spread** at 9 bps is at the low side

A Ukrainian pause? FRAs down last week

Still, the FRA path is steeper than NoBa's rate path – for good reasons





- Market FRAs are now discounting a steeper interest rate path than NoBa presented in December – <u>or the expected NIBOR spread widened substantially – which we deem unlikely</u>
- If NoBa hikes March 24 (by 25 bps, and not in May), the average NoBa rate will be 0.73% in the March FRA period
- Thus, the **March-22 3 m** contract at 1.19% implies 100% probability for a 25 hike with a 46 bps NIBOR spread.
  - If a 35 bps spread is assumed, almost more than a 40% probability for a 50 bps hike or if 25 bps in March, or an even higher probability for a May hike
  - Most likely, the NIBOR spreads is expected to be higher than 35 bps, but below 46 bps – and a the probability for a 50 bps March/25 May hike is <u>well below 40%</u>
- The June contract at 1.43% captures a lot of different scenarios, including a small probability for a June signal rate at 1.25%
- The market expects 1.5 – 1.75 bps signal rate in December, and a peak at above 2% in late 2023

US vs. Norway: The need for a monetary policy tightening

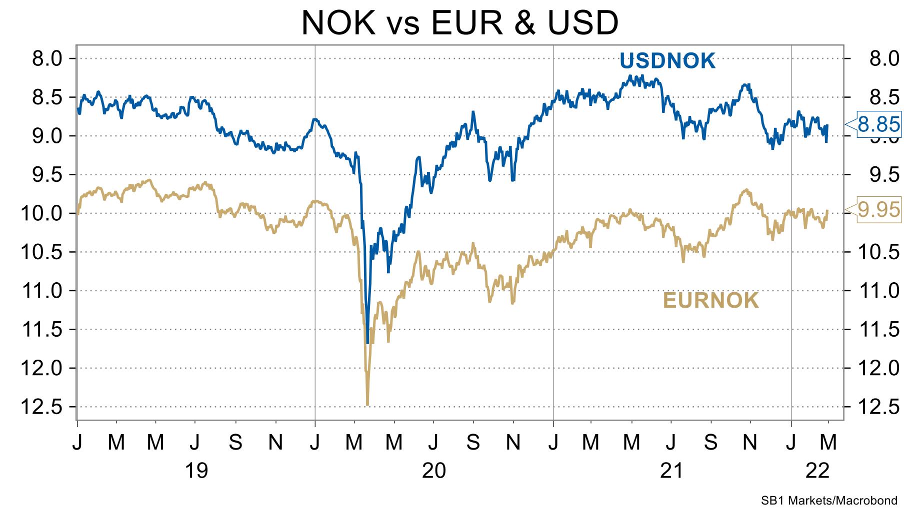
Less need for tightening in Norway, and households' response to higher short term rates far stronger

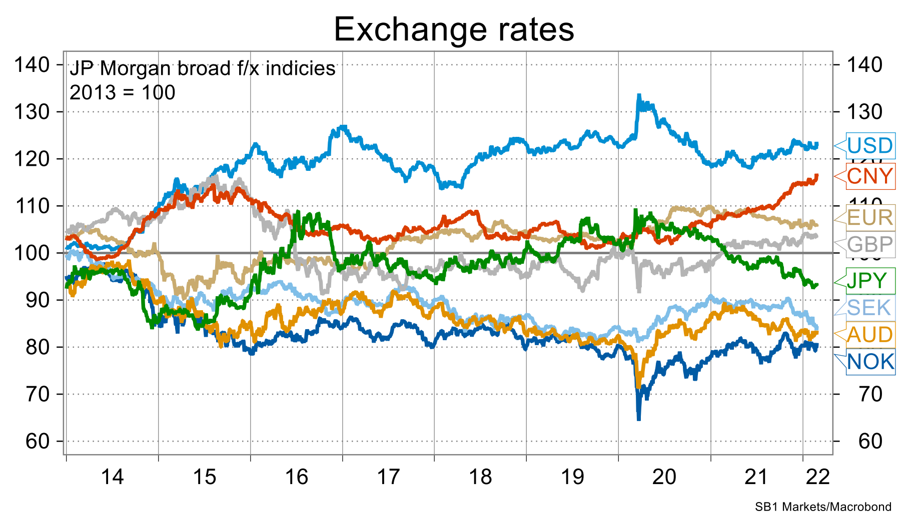
	USA	Norway
Inflation	Total 7.5%/core 6%	Total 3.2%, core 1.3%
Inflation expectations	Market 2.4%, households 3%+	Not higher (but probably not lower either)
Employment rate	Still below par	Well above the p-p level
Unemployment	Close to record low	Below average
Vacancies	Record high	High
Wage inflation	Accelerating rapidly	Accelerating slowly
House prices	Up 30% from Q4-19 Up 18% y/y now	Up 16% from Q4-19 Up 6% y/y now
Household debt	To 7% y/y from 3%	Unch at 5%
Househ. debt/inc. Ratio (vs. impact of higher short term rates)	>100%, from 135% in '08	246%, from 196% in '08
Floating or fixed mortgage rates	Fixed	Floating

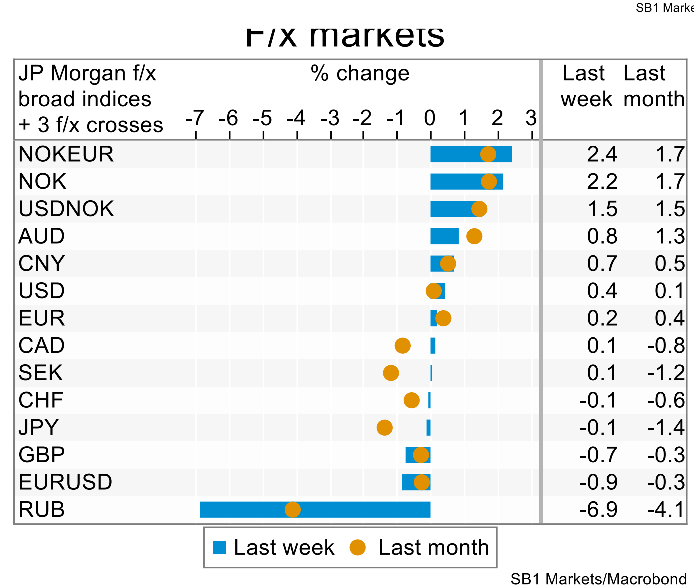
- US has a majority of the 'red' cells – in favour of a faster monetary tightening
  - » The economy is 'hotter'
  - » The impact of higher rates will be stronger in Norway than in the US

NOK the f/x winner, alongside the AUD & the CNY – the RUB the loser

The USD just slightly up, and even the EUR appreciated marginally (but fell vs the USD)

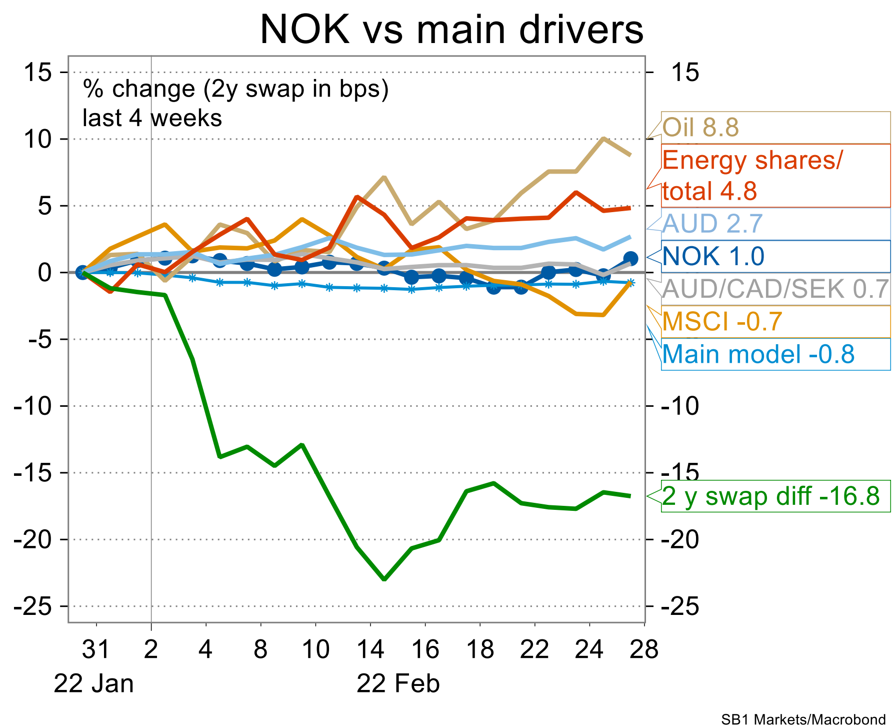


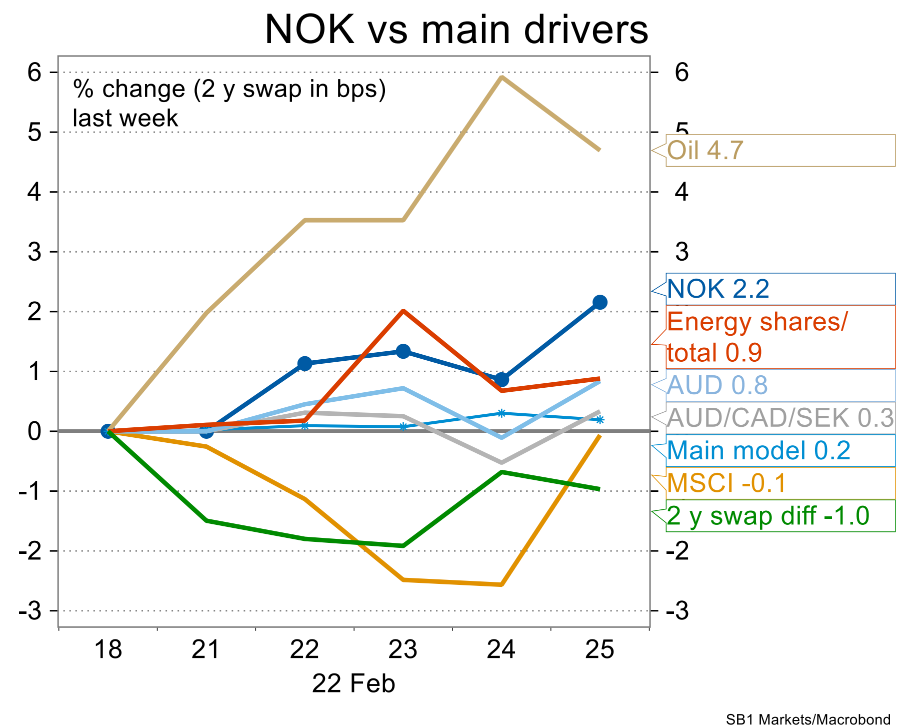




NOK up 2.2%, together with the oil price

Our model said 0.2% was sufficient but the NOK lost (too) much ground the previous week





The status vs. the normal drivers down vs all of them:

- ***The NOK up 2.2% - the level 2% below the model est (from -4%)***
- The NOK is 3% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -5)
- NOK is 4% <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market), but less than last week (from 3%)

At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices over time

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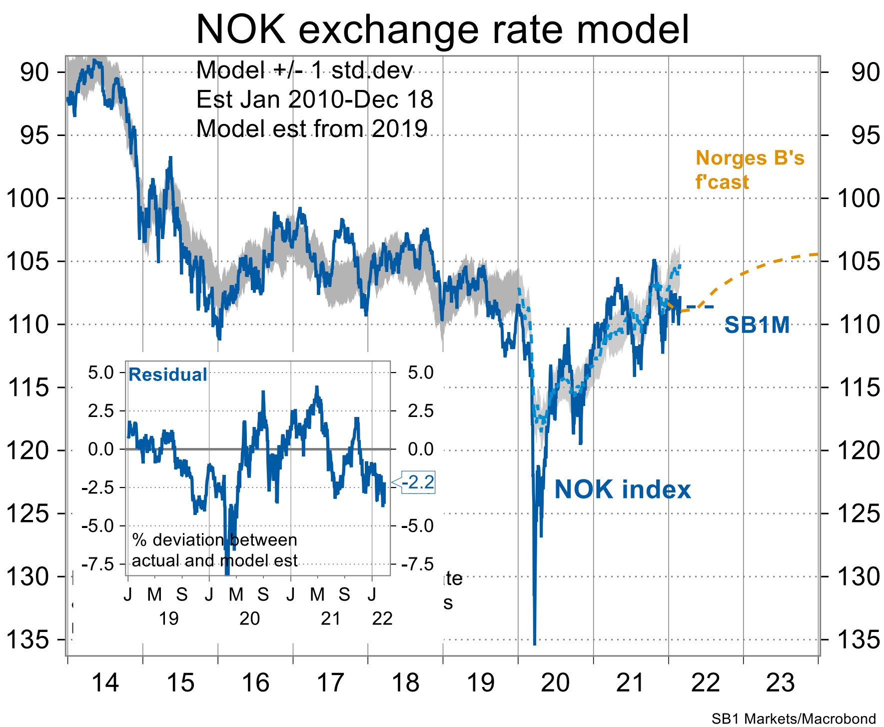
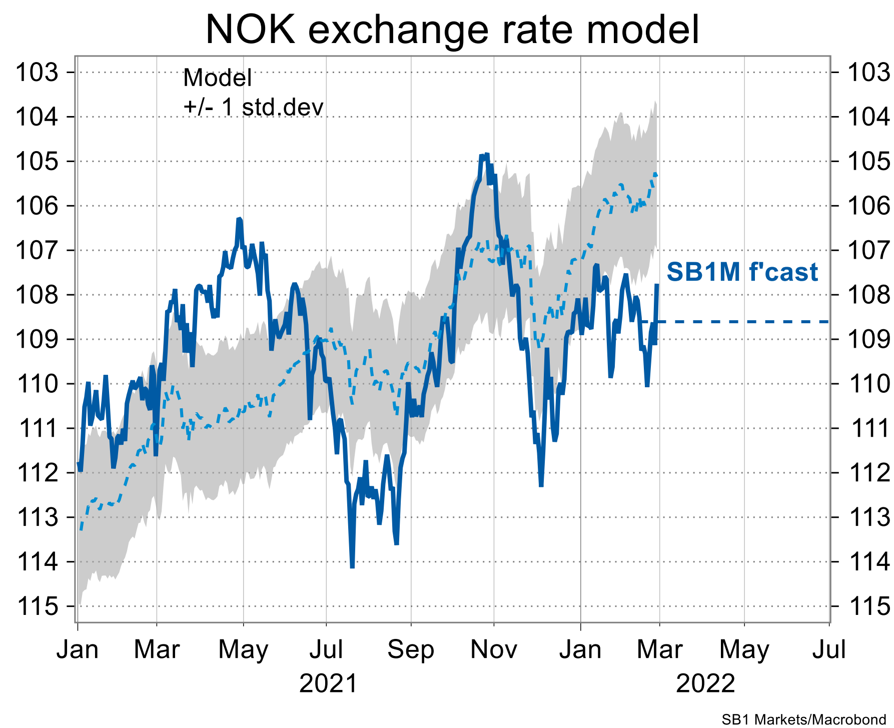
NOK lags our model by 4%

Time to buy?





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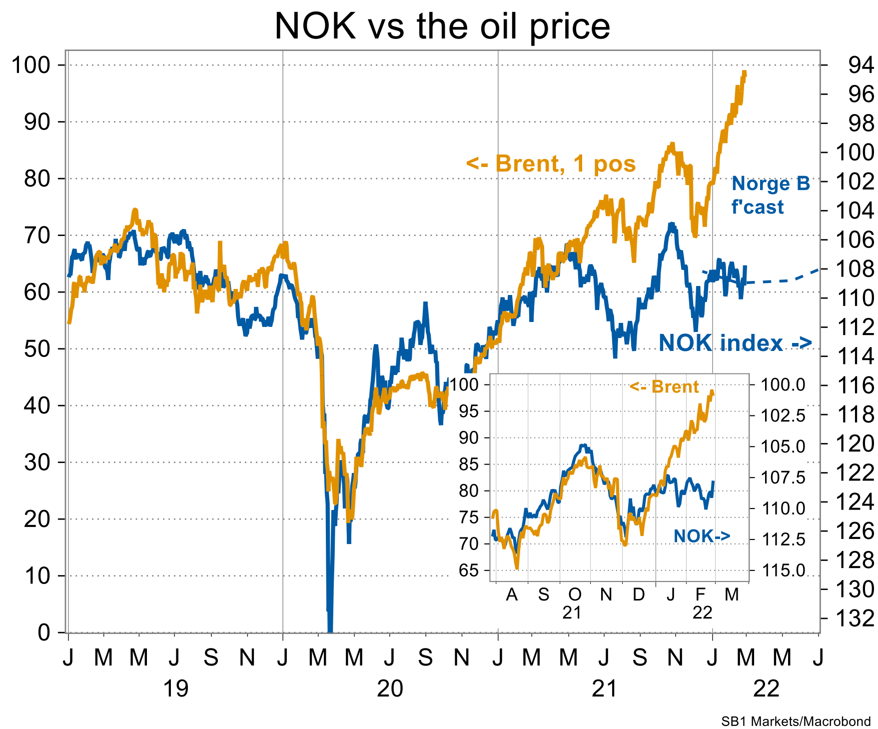
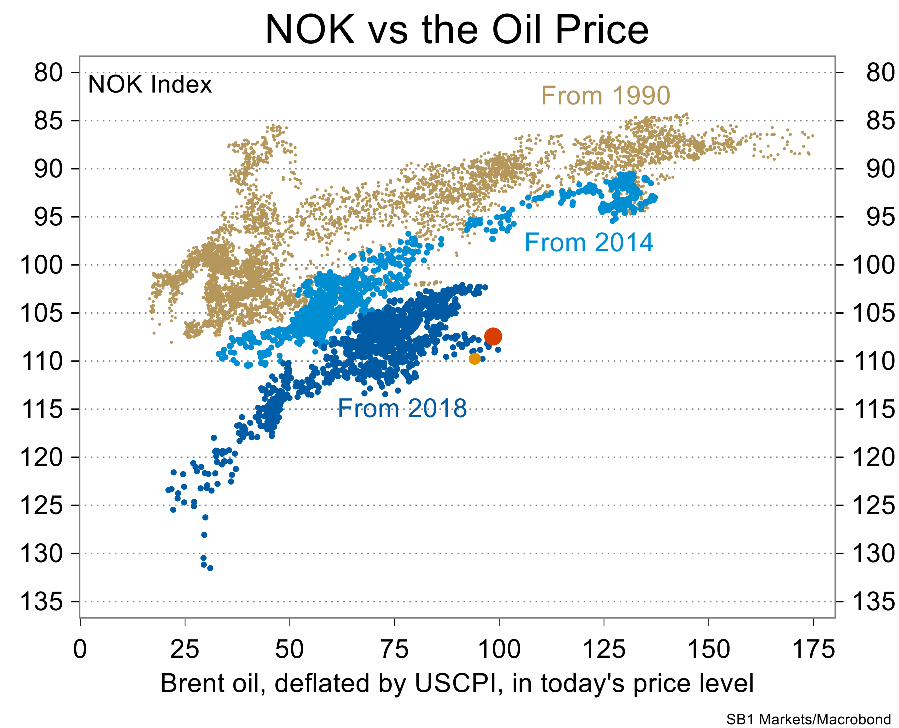
NOK finally followed the oil price up

The NOK is still 'lagging' 7% vs. the early Jan parity





- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 4%, as a partial effect. Within a broader model, the impact is smaller

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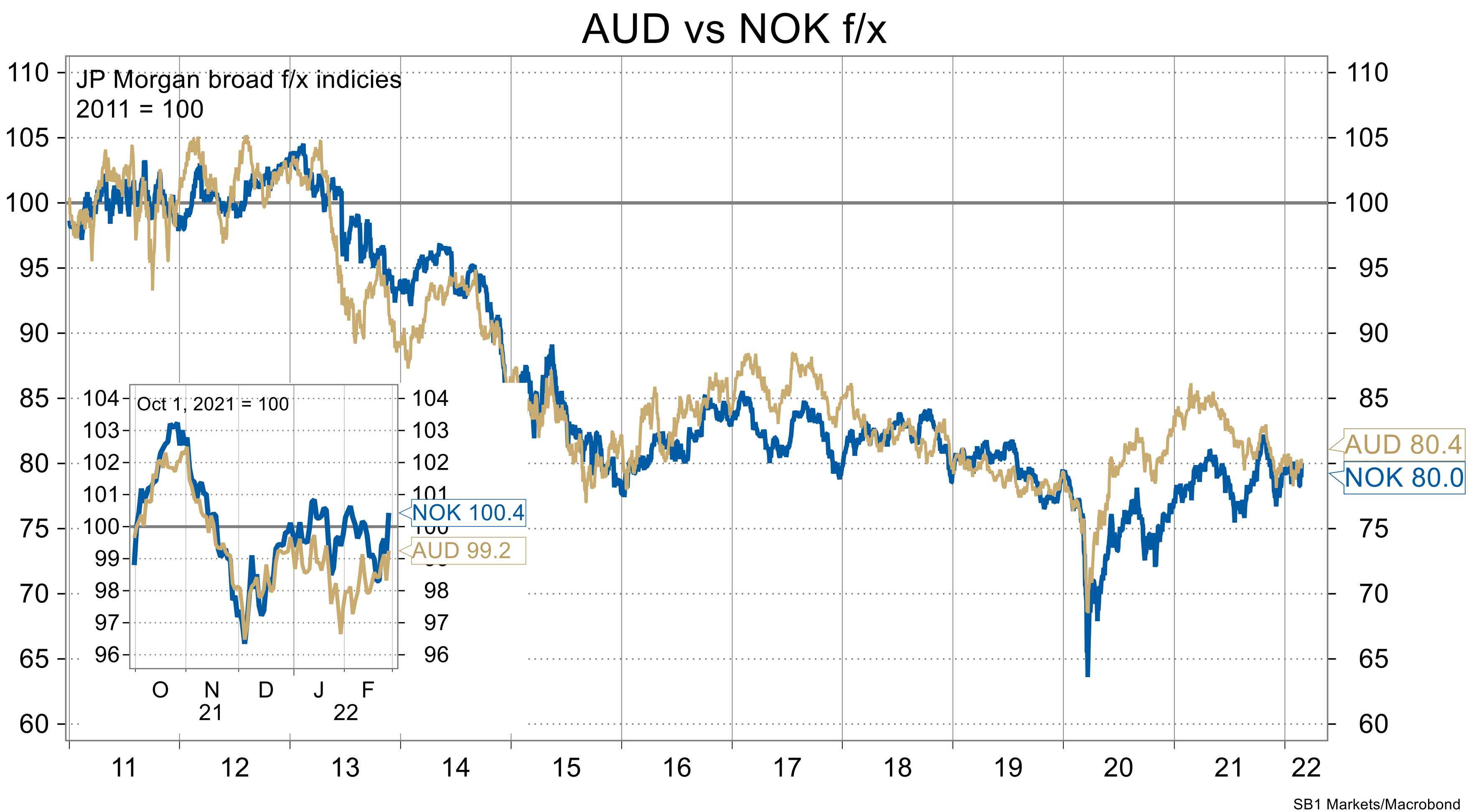
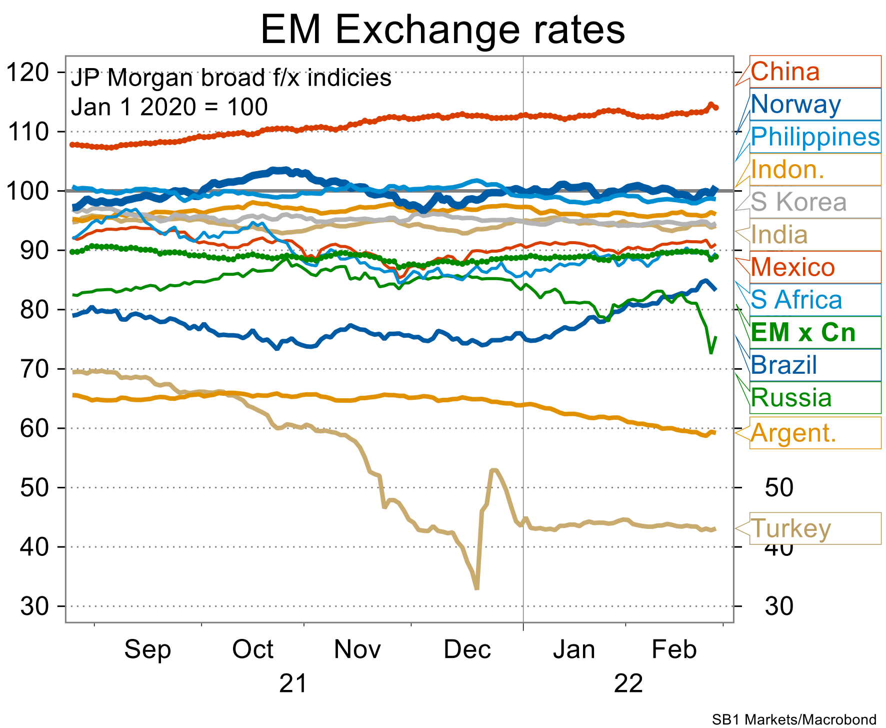
NOK in the lead vs AUD last week – reversing the previous week's loss

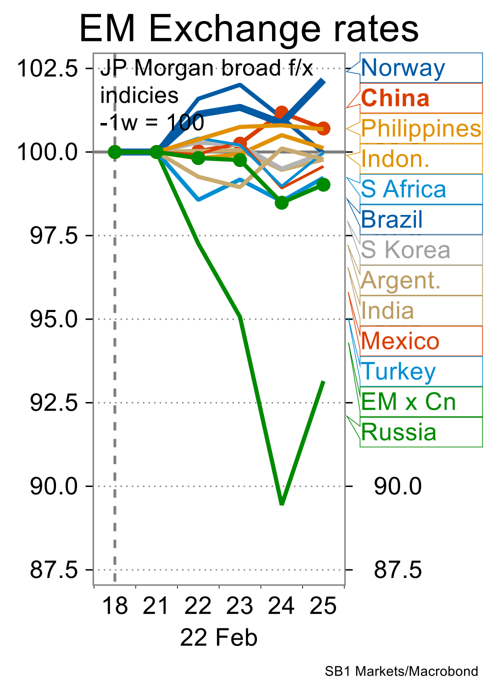


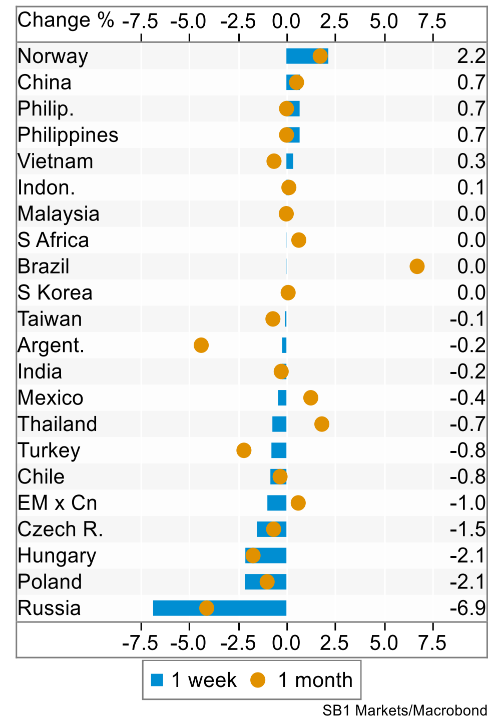
The two f/x indices are back to the 2011 parity (vs each other, from which they never since have deviated much)

Guess who’s f/x was last week’s loser? Putin’s, for good reasons

The rouble down 7% last week. And another 30% today??



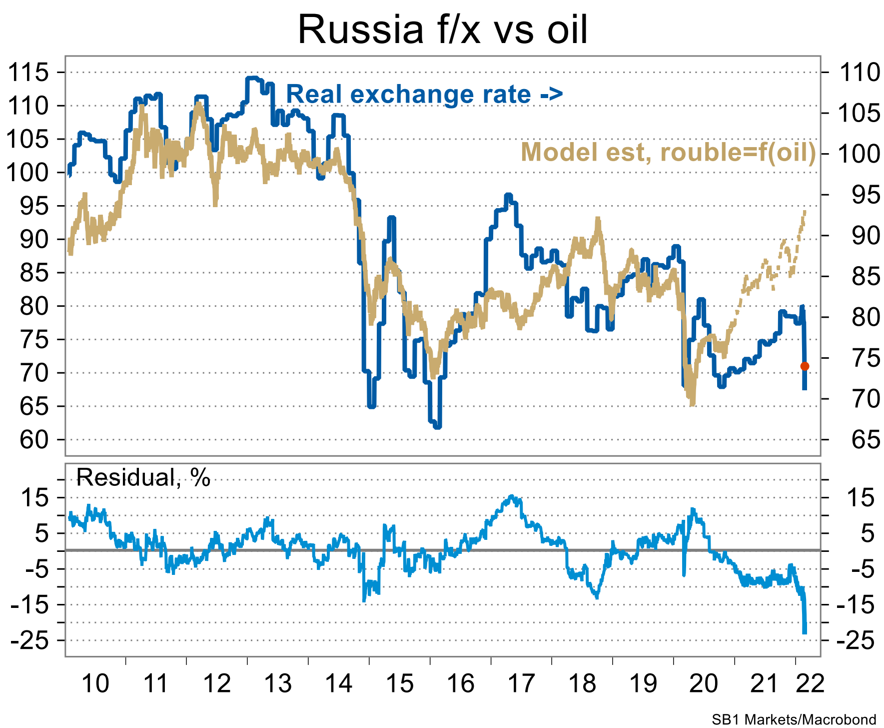


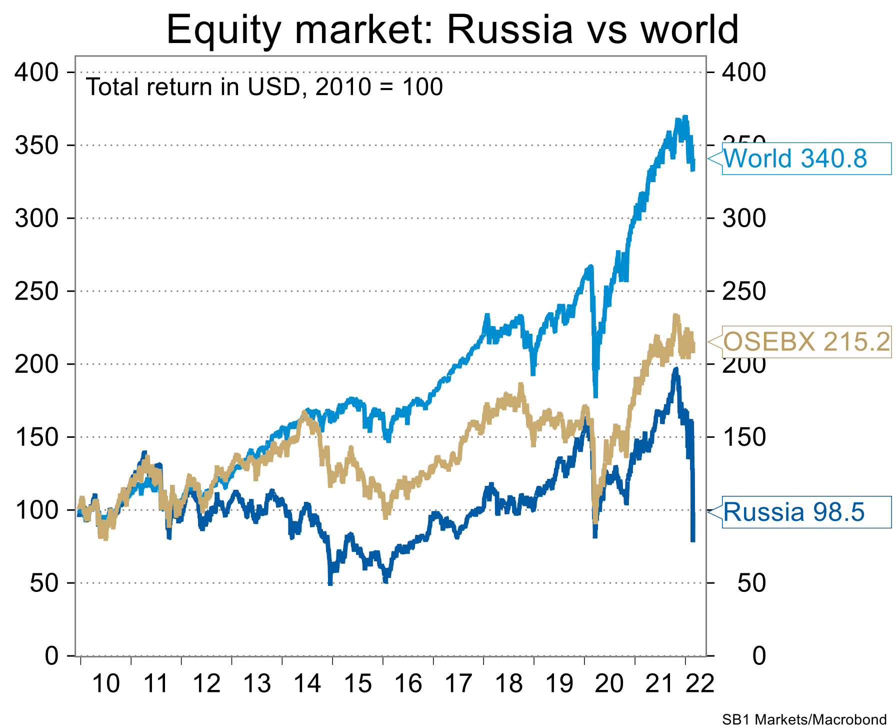


- Eastern Europe f/x was also under pressure last week
- The previous week’s loser, the NOK, gained more than 2%

The Russian rouble is 20% weaker than normal, given the oil price

And it will become much cheaper, given the tightening of the sanction regime over the weekend





- In addition, the stock market still has some downside left…

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